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Perceptions of Competitive Strategy: Realised Strategy, Consensus and Performance

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ABSTRACT

This is a study of managers' perceptions of the strategic priorities in their strategic business unit (SBU). The perceptions managers have of the current competitive strategy of their SBU are used to explore **four** main research themes. Managers' perceptions are accessed through a brief, standardised questionnaire which contains statements about current strategic priorities.

Firstly, the perceptions of managers from the same SBU are used to make inferences about the realised strategy of that business. SBUs in the sample (38) are classified into four realised strategy categories. These are derived from Porter's (1980) generic strategies. A number of hypotheses concerning the performance implications of these realised strategy categories are developed and tested. Additionally, hypotheses about relationships between consensus (the extent to which managers from the same SBU share the same perceptions of strategic priorities), realised strategy, performance and organizational change are developed and tested.

Secondly, the perceptions of managers from many different SBUs are used to derive a "managerial theory" of competitive strategy. This is developed in the context of a critique of Porter's generic strategies.

Thirdly, the research addresses the sources of influence on managers' perceptions of strategic priorities. Specifically, the influence of the function the manager belongs to, and the industry the SBU competes in are explored. Evidence of functional and industry influence on perceptions is presented.

Fourthly, the surfacing of managers' perceptions of current strategic priorities has been used to facilitate strategy debates with management teams. Examples of the issues raised, and the contributions to management discussion are presented.

Finally, the thesis suggests ways in which the approaches taken in the study could be developed to address other issues in the field of strategic management.

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CHAPTER ONE

SETTING OUT THE RESEARCH AGENDA

1.1 INTRODUCTION

This is a study into managers' perceptions of strategic priorities. The main part of the research uses these perceptions to infer the realised strategies of firms. (Realised strategy can be distinguished from intended or espoused strategy; it refers to the actual strategy currently being pursued by a business.) The study addresses four main themes:

* relationships between realised competitive strategies, consensus and performance

* managerial perceptions of competitive strategy

* organizational, industry and functional influences on managerial perceptions of strategic priorities

* surfacing realised strategy in strategy debates

In order to identify realised strategies a methodology has been developed which is designed to access the perceptions managers have of the current strategic priorities in their business. The primary underpinning logic of this approach is that managers' perceptions of strategic priorities will affect their behaviour (the decisions they take, the priorities they communicate to their subordinates, the areas they choose to monitor and control), and, in this way, the managers' perceptions will work

through the organization as management actions. These actions would, in aggregate, constitute the realised strategy of the business.

A secondary justification for this approach is that, notwithstanding the hypothesised links between management perceptions and management actions, managers' perceptions per se should provide reasonably accurate insights into the realised strategies of their firms. The managers' perceptions are, therefore, being used to make inferences about the realised strategy of their firm.

In conducting the research the following issues have been addressed:

* the content of strategic priorities

* consensus (shared understanding) within a management team about strategic priorities, and links between consensus and performance

* relationships between realised strategies and performance

* relationships between managerial perceptions of strategies and Porter's (1980;1985) "Generic Strategies"

* shared perceptions of strategic priorities within samples of functional managers across many SBUs

* shared perceptions of strategic priorities across SBUs within the same industry.

This opening Chapter sets out, in broad terms, the research agenda. In Chapter 2 specific hypotheses are developed through a review of the relevant literature. Chapter 3 explains the methodological approach to the study, and describes in some

detail the development and pilot testing of the research questionnaire. In Chapter 4 the results of the statistical analysis are presented and interpreted, and some conclusions are drawn.

Chapter 5 focusses attention on the links between managerial perceptions of realised strategies and Porter's Generic Strategies.

Chapter 6 explores the concept of industry "recipes", and functional bias in perceptions of strategic priorities across SBUs. Individual Strategic Business Unit (SBU) case examples are presented and discussed, concentrating particularly on the role that the research has played in the development of strategic thinking within Top Management Teams. The final chapter reviews the study, pointing up some methodological limitations, and outlining some suggestions for future research.

This first chapter begins with a discussion of "rational" approaches to strategic management. This review contributes to the exploration of the following questions:

* how is strategy formulated in firms?

* can realised strategy be identified through the examination of strategic plans?

* in what ways might a shared understanding of strategy come about?

1.2 PRESCRIPTIVE APPROACHES TO STRATEGIC MANAGEMENT

Most prescriptive strategy texts are constructed around an explicit or implicit rationale: good analysis leads to better strategy, and that, once implemented, the better strategy leads

through to improved performance. In the implementation phase the strategy is (usually) made explicit, and the organization is changed in line with the new strategy.

Strategy is defined in a number of ways in the prescriptive literature, but the definitions tend to take similar forms:

"The determination of the basic long-term goals and objectives of the enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals" (Chandler 1962:13).

Chandler goes on to stress that "strategy must have an effect on the future of the enterprise" which evokes the shaping role of prescriptive strategy. This theme is reinforced by a definition from a standard US strategy text:

"..the pattern of objectives, purposes, or goals stated in such a way as to define what business the company is in or is to be in, and the kind of company it is or is to be" (Christensen, Andrews and Bower 1973:107).

Hofer and Schendel introduce the importance of matching the organization to not only its goals, but also to the environment:

"...[strategy is] a match between an organization's resources and skills and the environmental opportunities and risks it faces, and the purposes it wishes to accomplish" (1978:11)

A similar approach is taken by Miles: managers strive to maintain "satisfactory alignments of environmental opportunities and risks, on the one hand, and organizational capabilities and resources on the other" (1982:14)

In the strategy formulation processes advocated by prescriptive writers the procedure is described as essentially linear in approach (Chaffee 1985), a sequential planning process

conducted by top management to achieve long range goals with respect to changes in markets and products.

There is some debate as to whether strategy formulation should include the determination of goals, or objectives. For example, Schendel and Hofer argue that "it is clear that some organizations do formulate their desired ends (goals and objectives) separately from the means (strategy) they use to achieve these ends.....research on structured problem solving and decision making indicates that superior performance occurs when the different steps of problem solving are considered separately" (Schendel and Hofer 1979:97). However, Hrebiniak and Joyce, view strategic decision making as a "series of means-ends decisions beginning with the determination of long-term, global objectives (ends) and the development of shorter term, more local actions to obtain those objectives" (Hrebiniak and Joyce 1984:28).

The explicit separation of ends from means has influenced recent research into consensus among top executives on the strategy of their business. Researchers have generally separated manager's perceptions of ends (objectives, goals) from means (competitive methods, strategies). (Bourgeois 1980a, Bourgeois and Singh 1983; Dess 1983)

The definitions of strategy presented above indicate that top management should formulate strategy, and that this strategy is then implemented by managers reporting to them. They imply that the deliberate shaping of the organization's posture with respect to its environment is preferable to no shaping taking place at all. The purpose of strategy is to effect deliberate change in the organization to achieve alignment (or "fit") with the external environment in pursuit of stated goals:

"Deliberate strategic change involves a planned intervention by senior executives, arising under certain environmental and organizational conditions, which attempts to guide emergent

reactions toward making major changes in strategy and/or organization, resulting in a realignment between the firm and its environment" (Greiner and Bhambri 1989:68)

Prescriptive writers who advocate deliberate strategy making processes tend not to devote a great deal of attention to the implementation of strategy. This can be evidenced by reviewing the amount of textbook space devoted to the formulation as opposed to the implementation of strategies (eg Wheelen and Hunger (1990) 2 Chapters out of 12; Thompson and Strickland (1987): 2 out of 10). Kerr and Jackovsky (1989) put it this way:

"In the rational model, strategy implementation is viewed largely as a structural problem that is addressed by achieving congruence or "fit" between the organization's strategy, structure and organizational systems. Organizational structure is designed to correspond to the hierarchical goal structure (Richards 1986) and serves to channel appropriate authority, resources and information to those departments charged with strategic sub-tasks (Hrebiniak and Joyce 1984). Control and reward systems focus managers' attention on strategic objectives and provide behavioural and attitudinal incentives that support the strategy (Lorange, Scott-Morton and Ghoshal 1986; Stonich 1982). Information processing mechanisms provide the necessary level of integration and coordination (Galbraith and Kazarjian 1986). In short, the rational model views strategy as the primary determinant of organization structure and process, and the implementation task as essentially one of architecture and design" (Kerr and Jackovsky 1989:163)

It could be implied, then, that proponents of the "rational model" would view implementation as a problem that can be addressed through analysis (of structures, information systems, control systems) and the construction of "rational" solutions.

1.3 CONSENSUS IN STRATEGY FORMULATION AND IMPLEMENTATION

There is a strong implication running through the prescriptive approaches to strategy that managers should share the same view of the strategic direction the business should be taking. Dess (1987) suggests that "many authors have supported the notion that strategy is formulated by consensus-building among members of the top management team" (Dess 1987:265). Ansoff (1965) emphasizes the importance of consensus on an appropriate set of objectives as an integral part of the strategy formulation process, and Bower and Doz (1979) also support the generation of a consensus around strategic objectives and policies as a prime requisite of strategy. (See also Hrebiniak and Joyce 1984, and Steiner 1979).

In the past few years a good deal of interest has been generated in the Japanese style of management in which consensus building is seen as a key element (Ouchi 1981; Nonaka and Johansson 1985). There have been studies into the use of consensus building in the formulation process in countries other than Japan (Van de Vliet 1984; Pegge 1986; Bolan and Wolf 1988).

Consensus building around the strategy formulated by the top management team (TMT) has also received the attention of researchers. In these studies consensus building at levels below the TMT is viewed as a key element of strategy implementation. O'Reilly (1989), for example in a survey of managers from a diverse range of firms found that the norms most frequently cited which help to promote implementation include:

* the elimination of mixed messages

* shared visions and a common direction

* building consensus

He suggests that the process of developing a shared set of expectations "begins with words and actions on the part of the group's leaders. Even if no explicit statements are made, subordinates will attempt to infer a pattern. If management is credible and communicates consistently, members of the group may begin to develop consistent expectations about what is important. When this consensus is also rewarded, clear norms can then emerge" (O'Reilly 1989:21)

Therefore an important component of implementation is seen to be the communication of the strategy to managers below the top management team. These middle and lower level managers need to understand the strategy if they are to play a full part in its implementation (Neilsen 1981:31).

Ideally managers should not only understand the strategy, they should be committed to it as well (Wooldridge and Floyd 1990). If there was shared understanding with less than wholehearted enthusiasm amongst the managers below the top management team (TMT), the intended strategy may still, nevertheless, be realised. But here the organization would be relying on devices other than shared values to drive the strategy (eg control systems, staffing policies, structure, management style). We might therefore expect that shared understanding of the intended strategy would assist in the realisation of intended strategies with or without the normative involvement of the line management (Etzioni 1964). Consensus about the direction the business should be taking should help to guide functional manager's decision making, and to set priorities within their departments that are in line with the broader strategy. Shared understanding of business level priorities should help to promote cross-functional cooperation, reducing the conflicts that can result if functional managers pursue parochial objectives at the expense of business-level priorities.

1.4 EFFECTIVENESS OF "RATIONAL" STRATEGY PROCESSES

"Rational" approaches to the management of strategy usually involve analysis (of the external environment, and internal resources), the generation of strategic options, the selection of the most appropriate option, and its subsequent implementation. "Rational" strategy making processes often have a tangible outcome in the form of a strategic (or "corporate") plan. However, "rational" processes need not follow the prescribed routine of strategic planning, and the outcome may not necessarily take the from of a planning document (it could be a "mission statement" (David 1989), or it could be an espoused "vision").

A major issue confronting the proponents of rational strategy making processes is whether or not such processes lead to superior performance. Greenley (1986), in his survey of the relevant literature, finds that "it cannot be concluded that strategic planning is an effective, or indeed ineffective, tool for the overall management of organizations" (Greenley 1986:101). The studies into the effectiveness of planning approaches are equivocal. Of the nine studies surveyed by Greenley, five claim a positive relationship between strategic planning and performance, whereas four did not establish such a relationship. Newman (1988) concludes that "the results of strategic planning, while positive, do not come up to expectations." Similarly, Pearce, Freeman and Robinson (1987) found only a tenuous link between formal strategic planning and firm performance. Like Greenley, Wood and LaForge (1979) report mixed results from previous studies into the effectiveness of formal planning.

There are problems in researching the links between formal strategic planning and firm performance, not the least of which would be the mass of other variables, most of them difficult to control for, that impact on firm performance. Greenley (1986) adds that the direction of causation could also be a problem: "it could be that indeed strategic planning does improve company

performance, but it could also be that improved performance gives the firm the capacity or ability to implement strategic planning, with improved profits yielding the resources for its utilization" (Greenley 1986:104).

1.5 REALISING "RATIONAL" PLANS

Kiechel (1982) claims that too much attention has been paid to the formulation of strategy, when the real challenges lie in implementation. Dess and Davis (1984) conclude that "an observed discrepancy between intentions and realised strategy may arise from the inability of the firm to translate its intended strategies into actions because of environmental change, a lack of appropriate implementational capabilities, or unrealistic expectations. Singly, or in combination these factors may result in an emergent strategy that is observed to be different from the intended strategy" (Dess and Davis 1984:485)

Smircich and Stubbart (1985) suggest that "failures in implementation seem to originate primarily in the [strategic management] field's inattention to the fundamentally social nature of the strategy formation and organizing processes" (Smircich and Stubbart 1985:724)

The problems of implementing planned, or deliberate, strategies have been well documented (Mintzberg 1989; Johnson 1987; Bowman and Asch 1987). Moreover, many organizations exhibit "momentum" (Miller and Friesen 1984), a state in which reversals in the direction of change in strategy or structure are relatively rare (Greiner 1972; Tushman and Romanelli 1986; Mintzberg 1978).

If deliberate attempts to shape the strategy of the organization include plans to move the organization off into new areas, these writers' observations would suggest that such plans would be

unlikely to be implemented. On the other hand, if the intended strategy merely indicated minor adjustments to the status quo, the plan might stand a better chance of being implemented. For the researcher into the effectiveness of planned strategy this poses a problem. If the plan merely confirms the existing (realised strategy) then it will be more likely to be "implemented" as it requires no real change. So, in this case does planning improve performance? The realised strategy is effectively untouched by the planning process, and performance is determined by the appropriateness of the realised strategy, not the existence or otherwise of a planning system. Moreover, it is conceivable that managers may construct a plan which provides a acceptably "rational" explanation for their realised strategy. Thus the direction of causation is reversed: the realised strategy determines the plan.

These findings would suggest that strategic plans may not be a reliable indicator of realised strategy, because, in many organizations the plan does not get implemented as intended. Instead, strategy "emerges" (Mintzberg 1978; Mintzberg and Waters 1985).

1.6 THE FORMATION OF REALISED STRATEGY

In contrast to the prescriptive writers on strategy, those who seek to understand and explain strategy making in practice have uncovered an organizational reality that is both complex and untidy. It appears that few organizations formulate strategy using "rational" analytical approaches (Mintzberg, Raisinghani and Theoret 1976), and, even if they do use a planning approach, the realised strategies that emerge often bear little relationship to the intended strategies derived from such plans. Various interpretations of the reality of strategy making have been advanced.

Some see strategies as emerging from a series of disjointed,

incremental decisions (Lindblom 1959). Here there is no attempt to specify ends or objectives. These can only be inferred from the actual policy decisions made. Strategy evolves through a series of "successive limited comparisons" of options, bargaining between different interest groups, and incremental adjustments to the status quo.

Quinn (1980) argues that this incremental process can also be "logical", given the complexities and uncertainties facing management teams. Top management respond to environmental uncertainty by establishing broad guidelines for the management of the core business, whilst at the same time permitting small scale experimental developments not necessarily driven by objectives set from the top. In this way the organization can learn to adapt to the environment as these strategic trials generate information, commitment, learning and confidence. Thus the incremental process is "logical"; it is not a disjointed, reactive response to complexity.

Strategy can be conceived of as a "pattern in a stream of decisions" (Mintzberg and Waters 1985). Mintzberg (1978) suggests that "a strategy may form gradually, perhaps without intention, as [the CEO] makes his decisions one by one". This conception of strategy can be contrasted with the deliberate attempts to shape the strategy of the organization discussed earlier. "Purely deliberate strategy precludes learning once the strategy is formulated; emergent strategy fosters it. People take actions one by one and respond to them, so that patterns eventually form" (Mintzberg 1989: 32). Johnson (1987) interprets this emergent process as one in which "organizations 'feel their way' through the uncertainty and complexity of their environment with gradual or 'trial and error' changes" (Johnson 1987:20)

Studies of strategic change in organizations have exposed periods of relative stability punctuated by infrequent, but major shifts in strategy (Miller and Friesen 1984; Chandler 1962). In

the periods of stability the seeds of emergent strategies are being sown in parts of the organization, and, when revolutionary change becomes necessary, these emerging patterns can be developed into the dominant strategy (Mintzberg 1989). This concept is not dissimilar to Quinn's logical incrementalism, but it does not necessarily imply intention on the part of senior management to encourage or tolerate the "side bet" experiments.

The organizational processes that bring about strategic changes have been characterized as being essentially political (Pettigrew 1977; Cyert and March 1963; Allison 1971). Incremental changes in strategy come about through groups with conflicting interests bargaining over, essentially, scarce organizational resources. Central to this interpretation is the power individuals and groups have to influence resource deployment decisions (Thompson 1967; Hickson et al 1971).

An alternative explanation of incremental processes conceives of strategies being shaped by the culture of the organization (Johnson 1987), and by the existence of industry-wide "recipes" (Grinyer and Spender 1979; Huff 1982).

Johnson stresses the role in strategic decision making played by an organizational "paradigm", a common set of beliefs and assumptions taken for granted by managers about, inter alia, the organization's distinctive competences. The paradigm is reinforced and supported by various dimensions of the organization's culture (power structures, control systems, routines, rituals, symbols). The paradigm can so dominate strategic thinking that "objective" evidence from the environment that threatens the taken for granted assumptions may be reinterpreted, or dismissed by the management. The existence of a strong paradigm acts as a stabilising force, which can lead to "strategic drift" as the organization's strategic posture becomes increasingly out of line with the demands of the external environment.

This approach forms part of a wider "interpretative" school of thought (Chaffee 1985; Weick 1983; Schein 1985; Bartunek 1984). Strategy is a product of individual or collective sense making and interpretation of the organization and the environment within which it operates. The cognitive and symbolic interpretation of the world guides and directs strategic decision making. (Smircich and Stubbart 1985; Weick 1979). Managers possess 'scripts', 'causal maps', or 'ideologies' which act to make sense of situations and guide appropriate behaviour. Strategy is not separate from, but part of, or the outcome of, the ideology and culture of the organization (Johnson 1987). Fundamental ('quantum leap') strategic change requires a shift in organizational ideology, and, as a result such changes are infrequent and problematic.

Hannan and Freeman (1977) and Aldrich (1979) add a further dimension into the intended vs emergent strategy debate, by arguing that the environment determines who will survive and prosper, and executives have only a minimal impact on corporate development. This ecological approach suggests that managers are severely constrained by the environment which limits their ability to exercise choice.

1.7 INCREMENTALISM AND CONSENSUS

Shared understanding of the emergent strategy may or may not result from these incremental, political and cultural processes. For example, if management thinking was dominated by a well-embedded "paradigm", one might expect a high degree of shared understanding about the strategy of the business (even if it was never explicitly discussed). Political processes may promote consensus, particularly if one function dominates the senior management positions.

Gronhaug and Falkenberg (1989) argue that most firms experience very few changes to their strategies, even when under threat.

Firms are likely to resort to what they perceive to be their basic competences as an intuitive reaction to threat. And Noel (1989) suggests that CEOs exhibit some rigidity in their visions, which he dubs "magnificent obsessions" .

Boeker (1989) contrasts two views of organizational change: the adaptive view and the inertial view. The adaptive view assumes that managers are able to exercise strategic choice, they monitor the environment and modify strategies to fit the changing environment (Andrews 1971; Child 1972; Schendel and Hofer 1979). In contrast, the inertial perspective assumes that organizations are constrained in their ability to adapt. Organizations have a general tendency to preserve strategy rather than to radically change it (Quinn 1980). As noted above, Miller and Friesen (1984) discuss strategic momentum, a tendency towards persistence in organizations that makes organizations slow in adapting to environmental changes, which may lead to strategic drift (Johnson 1988). As Starbuck (1965) notes: "when an organization adopts one class of strategies, it automatically makes the adoption of other strategies difficult or impossible" (Starbuck 1965:470).

Picking up the theme from Starbuck, Boeker (1989) argues that

> "because the adoption of a particular strategy requires specific skills as well as investment in facilities and personnel that may only be marginally useful if a firm adopts a different strategy, firms adopting a single or dominant strategy may be less likely to change their strategy than firms pursuing several strategies simultaneously." (Boeker 1989:493)

Staw (1981) suggests that the tendency to escalate commitment to the current strategy may overcome evidence that strongly indicates that the strategy is failing. This may be explained by a motivation amongst top management to self-justify, or to prove the rationality of earlier decisions. Citing evidence from a

laboratory study, Bateman and Zeithaml (1989) suggest that "failure feedback from a past investment decision will lead to significantly higher levels of investment than success feedback" (Bateman and Zeithaml 1989:62)

Oster (1982) asserts that "to have significance for the allocation of resources, a strategy must necessarily involve some commitment that is irreversible, at least for a time" (Oster 1982:377). And Snow and Hambrick observe that: "... the general tendency of managers is to preserve rather than change their organization's strategies" (Snow and Hambrick 1980:529). Taking an economists perspective, the presence of intra-industry barriers to mobility (Caves and Porter 1977; Harrigan 1982) may require such an investment of scarce resources as to make strategic change or exit costly, if not prohibitive.

It is quite possible that political and cultural processes would lead to differing perceptions of business priorities. These processes may result in managers in different parts of the organization, and at different levels, perceiving quite different business-level priorities. For example, Mintzberg and McHugh (1985) describe how emergent strategy "grows initially like weeds in a garden" (Mintzberg and McHugh 1985:194), which indicates a rather uncontrolled, haphazard process likely to lead to divergent perceptions of priorities in different parts of the organization.

A number of questions emerge from this discussion:

* how do managers get to understand the strategy of their business?

* does a shared understanding of business priorities ("consensus") exist in a given business?

* at what levels in the hierarchy does consensus occur?

* does consensus exist across management levels, and across functional departments?

* does consensus make a difference to the performance of a business? Is shared understanding a virtue, regardless of how it comes about?

1.8 EXPLORING REALISED STRATEGY

The realised strategy of a business could refer merely to its observable strategic position. From an outside observer's perspective, such a definition of realised strategy would be confined to the products/services it sells, the markets it competes in, its performance, financial structure, locations, tangible assets etc. All these aspects are (usually) knowable to an outsider, and could be referred to as the extant strategic position of the business. This information about the business is useful, but it really only tells us about the results of past strategic behaviour.

Alongside this description of the extant strategic position of the business there is another dimension of realised strategy which is dynamic, and which will impact on the **future** strategic position of the business. This dimension of realised strategy refers to the **extant strategic priorities** in the business, the current thrusts, imperatives, or orientations that influence the evolving strategic posture of the business. It is this dimension of realised strategy that is the focus of interest in this research.

From the preceeding discussions we can conclude that intended or deliberate strategies often do not become realised strategies. Intentions to change the strategic direction of the business can

get pushed aside by a wide variety of factors, including existing control systems, resistance to change, overriding operational issues, rapid environmental change, lack of management resources. Consequently, if we are interested in understanding the realised strategy being pursued by a business, inquiring after the intended strategy might not be a good place to start.

The various interpretations of the realities of strategy making suggest that the processes whereby strategies emerge tend to be complex and multi-faceted. These processes may or may not lead to a shared understanding of strategic priorities across the organization. As intended strategies in the form of strategic plans are not likely to be a reliable indicator of actual, realised strategies, and, as the processes whereby strategies emerge are complex they do not lend themselves to empirical investigation. Researching the complex processes that produce realised strategies requires a particular kind of study (realistically, an in-depth study of a single organization over a number of years). However, if the focus of interest is not the processes that produce realised strategies, but the content of realised strategies, then other methodologies become viable.

One way to try to get closer to the realised strategy might be to find out what managers perceive the current priorities of the business to be. The perceptions of strategic priorities that managers (at many levels) have are likely to influence their behaviour, and hence shape the emerging strategy. As Miller notes

"Perceived measures..[are] expected to have the strongest associations with business strategy since it is perceptions that strategists act on" (Miller 1988:291).

Noel (1989) notes that "CEOs....concentrate on activities they feel are crucial to the survival or growth of their firm" (Noel

1989:44) and that "in demarkating these strategic cores [through their actions] our CEOs also define for their subordinates the important issues to concentrate on" (Noel 1989:44). Hence, priorities may be signalled to managers through CEO actions. This may result in contradictions emerging between espoused strategies (eg the priorities set out in a "Mission Statement") and priorities perceived by managers through their observations of CEO actions. For example, the espoused strategy may emphasise the importance of excellent customer service, but the CEO appears to be more concerned with hitting budgets.

If managers perceive the same priorities, their actions may well be guided along similar lines, and a coherent strategy might emerge. The shared perceptions may have resulted from political, cultural or logical incremental processes, or they may have resulted from successful efforts to shape the strategic direction of the business through planning activities instigated by the TMT. If the priorities managers perceive to be extant in the business influence their behaviour, then identifying these priorities should give a strong indication of the realised strategy of the business. If there is a high degree of consensus about strategic priorities then we could conclude that the business was pursuing a coherent strategy; all managers perceive the same set of priorities. This coherent realised strategy may or may not lead to good performance, depending upon whether or not the strategy itself is viable.

A lack of agreement amongst the managers of a firm would indicate a realised strategy without coherence, with managers perceiving that the business is pursuing differing priorities, and therefore their actions are likely to be channelled in different directions.

A number of issues emerge from the above discussion, but three linked themes are of particular interest in this study of realised strategy:

1) Can we establish managers' perceptions of strategic priorities?

2) Can we use managers' perceptions of strategic priorities to infer the content of the business's realised strategy?

3) Does a shared understanding of business priorities make a difference to performance (regardless of how the consensus emerged)?

1.9 MANAGERS PERCEPTIONS AND REALISED STRATEGY

Daft and Weick (1984) suggest that:

> "People in organizations are talented at normalizing deviant events, at reconciling outliers to a central tendency, at producing plausible displays, at making do with scraps of information, at translating equivocality into feasible alternatives, and at treating as sufficient whatever information is at hand." (Daft and Weick 1984:294)

In the search to make sense of "reality" managers use various cognitive processes and devices which combine with learning from past experience, personality traits and values to produce the manager's perception of organizational reality.

In an attempt to model this process, Hambrick and Mason (1984) focus on a few key influences that shape managerial perceptions. Hambrick and Mason (1984) suggest that "executive backgrounds are reflected in strategic outcomes" (1984:197). They argue that the characteristics of the upper echelon team determine strategic choice, which in turn affects organizational performance. Hence, they are arguing a causal relationship

between executive background (age, functional track, education, career experiences, socio-economic roots), strategic choice and firm performance.

In the context of this study, an intermediate step in this causal sequence, realised strategy, (a step not addressed by these authors), is the focus of attention.

Figure 1.1 presents a model of the factors which may influence how managers perceive strategic priorities, and how these perceptions may feed through into actions, and to firm performance. It is based on Hambrick and Mason's model of the cognitive processes of managers (Hambrick and Mason 1984:195).

The model assumes that managers are unable to scan every aspect of the organizational environment, or the external environment (Cyert and March 1963). The manager's field of vision, those areas to which attention is directed, is restricted, severely constraining the scope of perception. The manager's perceptions are further limited because one selectively perceives only some of the phenomena included in the field of vision. The pieces of information selected for processing are interpreted through a filter "woven by one's cognitive base and values" (Hambrick and Mason 1984:195).

The cognitive base of the manager refers to his or her own set of "givens" (March and Simon 1958; Barnes 1984). These include knowledge or assumptions about future events, knowledge of alternatives, and knowledge of consequences attached to the alternatives. As Stubbart (1989) notes:

> "A manager copes with the constant threat of information overload by relying on a handy but imperfect set of problem solving procedures--heuristics, or rules of thumb--that apply to a variety of problems." (Stubbart 1989:338)

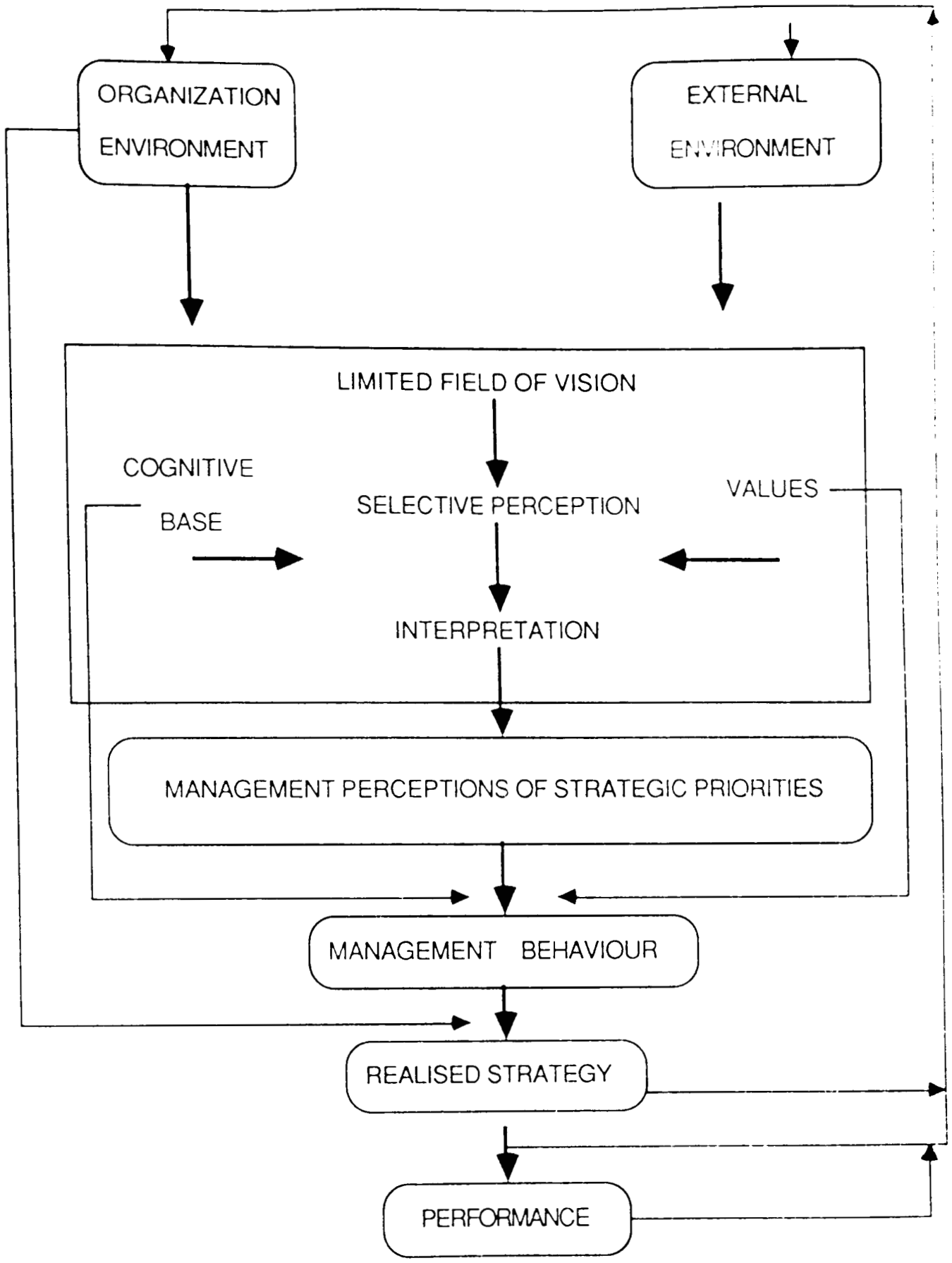

FIGURE 1.1 PERCEPTIONS OF STRATEGIC PRIORITIES AND REALISED STRATEGY

The perceptual process is also influenced by the manager's values: "principles for ordering consequences or alternatives according to preference" (Hambrick and Mason 1984:195). Guth and Tagiuri (1965) maintain that:

"Values can be thought of as the guidance system a personality uses when faced with choices of alternatives." (Guth and Tagiuri 1965:125)

Haley and Stumpf (1989) suggest that personality type is related to the cognitive style a manager adopts in strategic decision making, in particular personality influences the search for data, and the evaluation of data.

The manager's cognitive base and values may be strongly influenced by his or her organizational experience. The presence of a strong "paradigm" (Johnson 1987) would result in a group of managers from the same organization sharing similar cognitive bases and value systems.

Two broad categories of input stimuli are identified: those that occur within the boundaries of the organization (which would include: espoused strategies, control systems, management actions, physical resources, past history, stories and myths (Johnson 1987), organization structure, status systems, communication procedures); those stimuli that stem from the external environment (including competitor actions, customer complaints, cultural norms, political actions, technological developments).

The model suggests that a manager's perceptions of strategic priorities are an outcome of these complex processes. These perceptions of strategic priorities may feed through to affect management actions. However, this connection is moderated by the manager's cognitive base (for example, the manager's beliefs about cause and effect relationships), and his or her values (the

manager may perceive a priority to, say, cut overheads, but he or she is unwilling to fire loyal staff).

Management behaviour, in turn, will influence realised strategy. This connection is moderated primarily by the internal organization. For example, the manager may wish to act to improve service quality but his actions are not wholly successful due to inadequate resources. The resultant performance of the business is strongly influenced by realised strategy, but it is also affected by the external environment (in particular, the structure of the industry (Porter 1980)).

Good perceived performance may feed back through the model to reinforce, for example, the manager's cognitive base. In this way past success may lead to firmly held beliefs about the business's distinctive competences. Poor perceived performance may lead to a questionning of present strategy, and the emergence of different priorities.

A manager's perceptions of strategic priorities may be strongly influenced by an espoused deliberate strategy formulated in a "rational" way by the Top Management Team. The strategy may be effectively fed through the organization's communication channels, it may be reinforced by observable management actions, and resource deployments; the logic and appropriateness of the strategy may influence the manager's value system. In these ways the manager's perceptions of strategic priorities are likely to be strongly influenced by the espoused strategy, and, according to the model, these perceptions will feed through to management actions, and into realised strategy. Hence through this process the intended strategy would be translated into realised strategy.

Perceptions of strategic priorities may, however, be influenced by other processes. The way a manager is introduced into the organization may strongly influence perceptions. These could be positive perceptions (with respect to Top Management

intentions), or they could be negative perceptions. Control systems could play a large part in signalling to a manager what is important. The stories recounted, cultural artefacts, status symbols and perceived power relationships could all feed through to indicate particular priorities to managers. And, as noted above, CEO behavior may strongly influence some managers (Noel 1989). Managers may be strongly influenced by their functional backgrounds (Dearborn and Simon 1958), which may bias their perceptions of strategic priorities.

Direct feedback from customers, or competitors may influence a manager, bypassing the organization environment. This information could affect the manager to the extent that his perceptions run counter to his colleagues who have either not been exposed to this information, or who have filtered it, or reinterpreted it in line with their cognitive bases.

The influences on managers' perceptions of strategic priorities could, therefore, stem from a host of sources. Some priorities can be embedded in the manager's cognitive base as a result of previous experience in other organizations (Hambrick and Mason 1984), or from his education, or his socio-cultural background. Tracing through linkages between this broad spread of influences and realised strategy is clearly a huge research problem. The problem addressed in this study is, however, of much more manageable proportions. Whilst acknowledging that the processes whereby manager's perceptions of strategic priorities are established are multi-dimensional and complex, this study addresses the outcome of these processes, the priorities perceived, not the processes that influenced them.

Hambrick and Mason (1984) posed a much more complex research problem, establishing the relationships between the managerial backgrounds of executives and strategic choice (and performance). This study addresses the links between managers' perceptions of strategic priorities, realised strategy, and performance. The causal connection between perceptions of

strategic priorities, management behaviour and realised strategy is not directly researched. It is assumed that managers' perceptions would influence their actions, and that these actions, taken across the organization would comprise the realised strategy.

However, through the identification of managers' perceptions of strategic priorities one gains access to the informed opinion of interested parties to the firm's strategy. In this way, the validity of the approach does not rest solely on the assumed link between perceptions and actions; managers' perceptions of what is deemed currently to be important in their organization would be a valid source of data, notwithstanding the inferred connection between perceptions and behaviour (Dess 1987). So, in this way managers' perceptions have a dual role in serving the aims of this study: they serve as an indicator of realised strategy through the assumed connection between managers' perceptions and management actions; and the manager's perceptions in any event could be regarded as valid observations of the reality of their organizations.

For these reasons it is important that the scope of the study embraces managers from levels below the TMT, otherwise TMT perceptions alone may merely reflect TMT intentions rather than the priorities perceived to be extant by managers in other parts of the business. The managers below the TMT hence play a role as interested and informed observers of the organizational scene, and as implementors of perceived strategy.

1.10 SCOPE OF THE STUDY

The research explores relationships between realised strategy, consensus, performance and change in strategic business units. Secondly, the relationships between managers' perceptions of competitive strategy, and Porter's Generic Strategy concepts (1980;1985) are examined. Thirdly, two important sources of

influence on managers' perceptions are explored: the industry context, and the manager's functional position. Finally, the research explores how the surfacing of realised strategy can assist management teams in strategy debates.

The following sections explain in outline the main themes of the research.

1.10.1 REALISED STRATEGY

As explained above, realised strategy is accessed through the identification of the perceptions managers have of their firm's strategic priorities. Figure 1.2 indicates the relationships researched in the study, and the specific hypotheses that are established and tested.

The study focusses exclusively on Strategic Business Units (Thompson and Strickland 1987:219), which are defined as discrete organizations that have profit responsibilities, that are seen as distinct entities by corporate management, and by SBU management. They may be distinguished on the basis of product types, geography, markets served, or a combination of these.

The study is, then, interested in strategy at the business level (in contrast to strategy at the corporate level), and the unit of analysis is the individual SBU.

The main focus is on competitive strategy, how the SBU competes in its industry. This means that other dimensions of SBU strategy are not explicitly addressed eg:

* the objectives of the SBU (eg. sales revenue growth, market share, gross profits, financial independence)

* the direction of development (eg. withdrawal from some markets, consolidation, increased penetration of existing

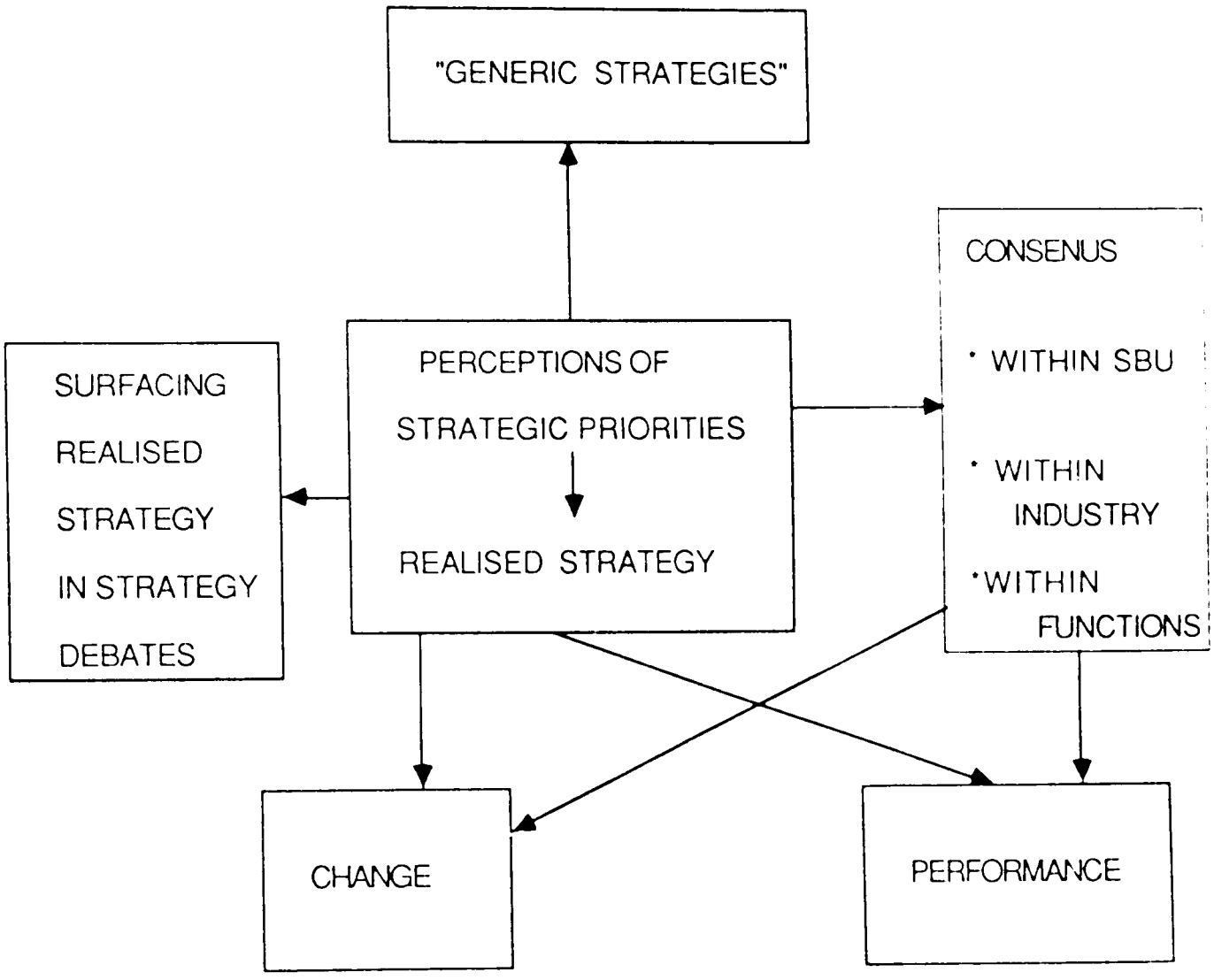

FIGURE 1.2 PRINCIPAL TOPICS AND RELATIONSHIPS EXPLORED

markets, growth through new product development, diversification)

* the methods of development (eg. internal development, joint development, acquisition)

There are two main arguments for focussing attention on competitive strategy. The first centres on the importance of this dimension in the strategic management literature. Porter's ideas, in particular the Generic Strategy concepts (Porter 1980, 1985), play a central role in this study. The generic strategies were used to inform the construction of the questionnaire used to identify managers' perceptions of strategic priorities. There were two motives behind this choice of conceptual framework. The first was one of acceptability; it was felt that by using this well known framework the research findings might be more acceptable to writers and researchers in strategic management (Skivington and Daft 1991).

The second motive emerged in the early phases of the development of the questionnaire itself. It resulted from some doubts, initially quite small, about the usefulness of Porter's generic strategies. And, as this framework had already been selected for this study, the research could provide some opportunities to test out whether managers perceive their SBU's strategy in Porteresque ways (Stubbart 1989:333). Moreover, if managers do perceive strategy in these terms, where managers perceive their SBUs pursuing Differentiation or Cost Leadership, do they outperform other firms in their industry ie. do Porter's Generic Strategies deliver superior profit performance?

The second argument for concentrating attention on competitive strategy centres on the hypothesised relationship between perceived priorities and realised strategy. The responsibility for implementing strategy rests not just with the Top Management Team. The prescriptive school of strategic management

acknowledge the importance of the role played by managers below the TMT in implementation. Moreover, in the differing explanations of emergent strategy discussed earlier, managers below the TMT are assumed to be playing an active part, not only in implementing strategy determined elsewhere, but in determining or shaping strategy through their own actions. Hence, it would appear to be crucial to a study of realised strategy to include the perceptions of managers at levels below the TMT.

Although there are acknowledged to be several dimensions to strategy (including objective setting, diversification, acquisition), it is probable that managers below the TMT would only have a limited understanding of these aspects of strategy (Daft and Weick 1984). It is argued here, though, that the SBU's route to competitive advantage (its competitive strategy) **would** be perceived by managers below the TMT. Managers at many levels, and across different functions are more likely to perceive the impact of, for example, cost cutting priorities, than they would broader strategic dimensions like market share objectives, joint venture strategies, or diversification intentions.

For these reasons, the study focusses on business unit competitive strategy, and it includes managerial perceptions from the Top Management Team, and from functional managers below the TMT.

1.10.2 CONSENSUS

The second main issue addressed is consensus. Consensus is defined here as the shared perceptions managers have of their SBU's strategy. It does not refer to the processes of strategic decision making, nor does it carry any normative dimension

(Wooldridge and Floyd 1989); consensus does not imply agreement with what the manager perceives the priorities to be. The importance of these qualifications will be made clearer in Chapter 2.

Until this study, the exploration of consensus among managers has been largely confined to members of the Top Management Team (Stagner 1969; Bourgeois 1980; Hrebiniak and Snow 1982).

In this study, because of the importance of the connection between management perceptions and realised strategy, the study includes managers not only in the TMT but from levels below the TMT. Consensus (shared perceptions) spreading across and down the SBU may well be associated with better performance. Consensus may be associated with particular competitive strategies, and it may be affected by the degree of change experienced in the SBU.

1.10.3 CHANGE

By including some dimensions of organizational change in the study relationships between change and consensus, realised strategy, and performance can be explored. Organizational change is seen to be a critical strategic dimension which can affect performance (where the organization is unable to change in line with environmental change). It is also linked to competitive strategy (Miles and Snow 1978; Miller 1987,1988), and to consensus (Grinyer and Spender 1979; Boeker 1989; Khandwalla 1976).

The fourth main theme of the study is the role that the surfacing of realised strategy can play in advancing strategy debates with groups of managers. In this context, dimensions of organizational change would provide useful additional insights into the SBU's

situation. For example, particular realised strategies could be related to certain aspects of organization change. It may be that realised strategies concerned with cost control are linked with changes in business operations, but not, for example, with changes in structures or processes. Information about changes in strategic direction could be related to realised strategy. So, by including a change dimension in the survey, these and other issues can be explored with groups of managers.

1.10.4 PERFORMANCE

By including performance measures in the study it is possible to test hypotheses about realised strategies, consensus and change and their relationship with performance. Therefore, the research should be able to address issues relating to the effectiveness of different realised strategies, whether consensus makes a difference to performance, and whether change is associated with high or low performance.

1.10.5 THE INFLUENCE OF INDUSTRY AND FUNCTION ON MANAGER'S PERCEPTIONS

The literature indicates that manager's perceptions of strategy may be strongly influenced by the industry context of the SBU (Grinyer and Spender 1979; Huff 1982), and the manager's functional experience (Dearborn and Simon 1958; Lawrence and Lorsch 1967; Newman 1988). These two important sources of potential influence are explored in Chapter 6. In addition, through the consideration of a number of case examples, the different strengths of influence on managers perceptions are also considered in this chapter.

1.10.6 SURFACING REALISED STRATEGY IN STRATEGY DEBATES

As indicated above, the fourth major theme of the study concerns the processes of strategy making, and the role that this research into realised strategy can play in assisting strategy debates. Huff (1990) suggests that:

> "...the designation of important concepts, categorization of concepts, causal links and arguments are all highly influenced by previous experience and by routine. Thus apparently 'fresh' analysis and decision is structured by what worked in the past. The analyst wishing to understand and predict decision making behavior must find a way to tap this underlying structure." (Huff 1990:39)

She also suggests that

> "A map defining concept dimensions and interrelationships might help sort out acceptable (even helpful) levels of disagreement among top executive groups" (Huff 1990:26)

In a similar vein Raimond and Eden (1990) argue that

> "As [managers] live from day to day inside the same corporation they habitually come to see it in a particular way, constraints become facts of life, customary interpretations become reality" (Raimond and Eden 1990:101)

In order to assist management groups in making explicit some of the underlying dimensions of strategy, the research instruments developed to explore realised strategy and consensus have been used with management teams in strategy debates. In particular, the reflecting back to the management team of a representation of realised strategy can often highlight the differences between espoused or intended strategy (if one exists), and realised strategy. Where there is no clear statement of intended strategy,

managers' implicit assumptions about what should be happening in the SBU can be compared with the realised strategy inferred from managerial perceptions of priorities.

1.11 OUTLINE OF THE THESIS

The main issues explored in the study are summarised in Figure 1.2.

The thesis is organised into three parts, which correspond to the four main themes:

* relationships between realised competitive strategies, consensus and performance (Chapters 2, 3, and 4)

* managerial perceptions of competitive strategy (Chapter 5)

* industry and functional influences on managerial perceptions of strategic priorities (Chapter 6)

* surfacing realised strategy in strategy debates (Chapter 6)

In Chapter 2 a number of hypotheses are developed from a review of the literature. The hypotheses are established to explore a number of aspects of realised competitive strategy, consensus, change and performance.

Chapter 3 develops the methodology to test the hypotheses set out in Chapter 2. The main issues addressed here include: the derivation and pilot testing of the "Perceptions of Strategic Priorities" questionnaire (the main research instrument); inferring realised strategies from the questionnaire responses; and deriving measures of consensus and performance.

In Chapter 4 the hypotheses are tested, and the results are interpreted.

Chapter 5 is devoted to the second main theme of the study, managerial perceptions of competitive strategy. In particular, this chapter develops a "managerial theory" of competitive strategy from the database of questionnaire responses. The chapter includes, inter alia, a critique of Porter's Generic Strategy concepts.

In Chapter 6 the third and fourth themes are developed. The first part of the chapter deals with functional and industry influences on manager's perceptions. The second part addresses the surfacing of realised strategy in strategy debates. These contributions are explored through a number of case examples where the research has assisted managers in discussing and formulating strategy.

Chapter 7 summarises the main contributions of the study, and sets out some limitations of the approaches used. It also sets out an agenda for future research.

CHAPTER TWO

DEVELOPING HYPOTHESES

2.1 INTRODUCTION

The aim of this chapter is to translate the broad relationships between realised strategy, consensus, change and performance set out in Chapter 1 into specific hypotheses. The literature concerned with the other main themes of the research (industry and function influence on manager's perceptions, and the surfacing of realised strategy in strategy debates) is explored in Chapter 6.

Because the focus of the research into realised strategy is competitive strategy, the chapter begins with a brief review of the dominant prescriptive approach in the strategic management literature, Porter's Generic Strategy concepts (this exploration of the literature is developed at greater length in Chapter 5 where the Generic Strategy concepts are evaluated in the light of the findings of this research). This is followed by an exploration of the literature concerning managerial agreement or consensus. This review of the literature is important firstly, because it clearly relates to one of the central themes of the present study, but secondly, because the field of consensus research provides the most appropriate frameworks for investigating management perceptions of strategy dimensions. The two other dimensions, performance and change, are addressed in the context of the discussions of competitive strategy, and consensus.

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2.2 COMPETITIVE STRATEGY

Porter's Generic strategy concepts have had a profound impact on the discipline of strategic management (Porter 1980;1985). He contends that there are three ways in which a business can achieve above average industry average performance:

* **Cost Leadership**: here the business achieves the lowest cost position in the industry. Through the maintenance of "average" quality levels the firm is able to command average prices. The combination of average prices and lowest costs results in the firm achieving above average levels of profitability.

* **Differentiation**: the Differentiation strategy requires the firm to offer higher value products or services than the industry "average". The higher value products permit the firm to charge premium prices. As long as the firm is able to achieve average cost levels, the premium prices enable it to achieve above average profitability.

* **Focus:** this is a "niche" strategy that concentrates a firm's attention on a specific type of customer, product or geographic area. The firm uses either a differentiation or a cost leadership strategy (or a combination of the two) within a particular part of the industry.

Empirical research and theoretical contributions have offered some support for Porter's position (Hambrick 1983; Miller and Friesen 1984; Dess and Davis 1984), although other studies have cast doubt on the validity and usefulness of the framework (Murray 1988; Day and Wensley 1988; Dickson and Ginter 1987).

Miller (1986) noted that there are at least two different types of differentiation strategies: those based on product innovation and those based on intensive marketing and image management. "The first strives to create the most up-to-date and attractive

products by leading competitors in quality, efficiency, design innovations, or style. The second attempts to create a unique image for a product through marketing practices" (Miller 1988:283). Miller suggests that the innovative differentiators are able to charge higher prices for their superior offerings.

The literature offers examples of both types of differentiation (Miles and Snow 1978; Miller and Friesen 1984). Miller's innovative differentiators correspond to Miles and Snow's Prospectors, and Miller and Friesen's Adaptive firms. The marketing differentiators are more like Miller and Friesen's S1a firms which offer an attractive package, good service, convenient locations, and good product/service reliability (Miller and Friesen 1984b).

Porter argues that "effectively implementing any of the three generic strategies usually requires total commitment and supporting organizational arrangements that are diluted if there is more than one primary approach" (Porter 1980:35). He goes on to suggest that each generic strategy "implies different organizational arrangements, control procedures, and incentive systems" (Porter 1980:40).

Innovative differentiation often involves new technologies, unforeseen competitor (and customer) reactions, and the confluence of many unstructured marketing problems (Hofer and Schendel 1978; Miles and Snow 1978). These conspire to increase the uncertainty and dynamism facing the SBU.

Marketing differentiation may be particularly effective in unpredictable and dynamic environments where it can be used to avoid potentially more costly ways of competing (eg through price, or innovation) (Miller 1988).

Cost leadership requires a great deal of effort be directed to cost control. Miles and Snow's (1978) 'defenders' and Hambrick's (1985) "efficient misers' and "cost leaders" pursue this strategy. Product

innovation will often be irrelevant to the customers of the cost leader, and, because the pursuit of cost-efficiency usually requires great stability, this strategy, in contrast to differentiation, is associated with low environmental change, and low unpredictability. Innovative differentiation is likely to require a highly differentiated structure, with decentralized decision making (Burns and Stalker, 1961; Hage and Aitken 1970; Mintzberg 1979; Zaltman et al 1973). There are many ways of differentiating through innovation which may contribute to diversity of opinion within the management group (Scherer 1980; Bourgeois 1980).

Complex innovation which requires structural differentiation creates reciprocal interdependencies (Thompson 1967; Mintzberg 1979) between managers and "technocrats". Unless extensive use is made of liaison devices, fragmentation of the structure, decentralization of decision making, and political behaviour will conspire to reduce the degree of consensus in the SBU.

We may expect, however, that a strategy of marketing differentiation would not necessarily cause the same degree of structural fragmentation as innovation, and hence would reduce the requirement for liaison devices, that innovation requires (Miller 1988). This is largely due to the more cosmetic nature of the changes required in marketing differentiation. As such, the requirement for innovation and change may well be restricted to the marketing function.

If innovative differentiation requires a highly differentiated structure, and a consequent demand for liaison devices, cost leadership, in contrast, is likely to require organizational stability and standardisation (Porter 1980; Mintzberg 1979; Miles and Snow 1978).

The essentially straightforward nature of the strategy of cost leadership would suggest that shared understanding of strategic priorities would be high. Low change, extensive standardization,

and centralization of decision making (which is likely to be tactical, rather than strategic) would also increase the tendency to high consensus. The extensive use of control systems (costing, budgeting) would also serve to continually drive home to managers at all levels the TMT's priorities (Mintzberg 1979; Miles and Snow 1978; Porter 1985).

By definition, there can be only one cost leader in any industry. This strategy requires the firm to deliver acceptable quality (to enable the firm to command average prices for the industry) at lowest cost (Porter 1985). Porter stresses the importance of being THE cost leader, largely because, in pursuing scale and experience curve advantages the firm needs market share. The competition for market share may well be played out through a prolonged price war. Severe cuts in margin would mean that, ultimately, only one firm would be making profits, the cost leader.

The strategy is essentially inward-looking, requiring that extensive management time and effort be devoted to squeezing cost out of the system (Porter 1985). It may also require heavy investment in plant that may take many years to repay the initial investment ("asset intensity": Macmillan and Hambrick 1983). Therefore, stability in demand (both in what the consumers want, and how much they require) is required. For these reasons, the cost leadership strategy would seem to be a risky option to pursue. The more low cost players there are in the industry the less likely it is that an individual SBU will succeed.

- In contrast, an industry can tolerate many differentiators (Porter 1980). The strategy is outward looking as it requires the SBU to seek out segments, discover what those buyers truly value, and deliver it. Although the differentiation strategy requires that the SBU command premium prices (Porter 1980), it might be effective without this qualification if the SBU is able to carve out a niche of loyal customers.

  It follows that, should an SBU be able to pursue both

differentiation and cost leadership simultaneously, it should be the best performer in its industry. However, Porter suggests that the contradictory requirements of these two options make the successful pursuit of both sources of advantage unlikely. The pursuit of both strategies simultaneously is referred to as a 'hybrid' strategy in this study.

This exploration of competitive strategy suggests a number of hypotheses that the research could address.

As there can only be one cost leader in any industry we would expect this to be a relatively uncommon strategy.

*** H1: Cost leadership will not be a commonly perceived competitive strategy**

Porter argues that the pursuit of cost leadership and differentiation simultaneously is difficult, and that, therefore this combined strategy would not be commonly found. In this study this combination of two generic strategies is referred to as a "Hybrid" strategy.

*** H2: The hybrid strategy will not be a commonly perceived strategy**

The essential premise of Porter's argument is that firms pursuing either of the generic strategies will be above average performers (in terms of profitability) in their industries. This suggests the following hypotheses:

*** H3: Firms perceived to be pursuing cost leadership will be above average performers in their industries**

* **H4: Firms perceived to be pursuing differentiation strategies will be above average performers in their industries**

* **H5: Firms perceived to be pursuing neither cost leadership nor differentiation will be average, or below average performers in their industries**

* **H6: Firms perceived to be pursuing hybrid strategies will be exceptional performers in their industries**

Turning to the connections between competitive strategies and change, the literature indicates that cost leadership strategies are likely to be associated with organizational stability. Skivington and Daft (1991) suggest that:

"Low cost decisions often do not entail a major shift in direction...[they] are implemented through extant systems, such as budget and operational expenditures....and are within the extant framework of norms, values, and member beliefs" (Skivington and Daft 1991:51)

This suggest the following hypothesis:

* **H7: Firms perceived to be pursuing cost leadership strategies will experience low organizational change**

The links between competitive strategies and consensus, addressed briefly in the discussion above, will be developed further in the following section, which considers the second dimension of the study, managerial consensus. This summary is followed by a discussion of the different definitions of consensus.

Then the scope of consensus, and the content of consensus studies are discussed. Then the process and context variables that influence the formation of managerial consensus are considered, including dimensions of organizational change.

At the end of the section a number of hypotheses are proposed linking managerial consensus, competitive strategy, change and performance.

2.3 CONSENSUS

This section begins with a brief summary of the most relevant empirical studies of managerial consensus, and follows with a discussion of various definitions of consensus, before proposing a definition.

An early attempt to investigate managers' perceptions was Dearborn and Simon's study of functional bias in perceptions of strategic issues (Dearborn and Simon 1958). This simple and extremely limited study has been extensively referenced as evidence that managers will "perceive those aspects of a situation that relate specifically to the activities and goals of his department" (Dearborn and Simon 1958:142). This apparent link between the functional role of the manager (linked to his past experience), and his or her perceptions is clearly of interest in the present study. For example, it could be that a strong functional bias may be helpful to an SBU, particularly if it was facing a complex task environment (Lawrence and Lorsch 1967; Mintzberg 1979). The influence of functional background on managerial perceptions of strategy is explored further in Chapter 6.

Stagner (1969) was the first in a series of studies that investigated agreement (or "consensus") among groups of managers about particular aspects of their organization. Stagner explored satisfaction with decision making. Grinyer and Norburn (1975; 1977-78) addressed, inter alia, similar concerns to

Stagner. They studied corporate planning systems, role perceptions, objectives and information channels. Their concern with consensus was largely a methodological issue: given the nature of their research design (based on multiple interviews with managers from within the same firm), what level of agreement among the managers should be reached before one could conclude that the responses were "true" (ie. that they accurately reflected the actual situation)?

De Woot, Heyvaert and Martou (1977-78) were interested in the levels of agreement (within a large sample of Belgian firms) on the means for accomplishing innovation activities, and, more recently, Bourgeois (1980) studied managers perceptions of goals and means across 12 firms in different industries. His was the first study to focus on the Consensus-Performance relationship.

Hrebiniak and Snow (1982) investigated managerial agreement on firm strengths and weaknesses with respect to environmental context in 88 firms spread across four industries. A similar investigation by Bourgeois and Singh (1983) measured disagreement among the Top Management Team (TMT) on the environment, goals and strategies (means). Bourgeois (1985) looked at consensus with respect to the managers' perceptions of environmental uncertainty.

In an attempt to build on Bourgeois' 1980 findings, Dess (1987) studied consensus on goals and means within 19 firms from the same industry, and like Bourgeois, in his study Dess related consensus to performance.

These nine empirical studies all addressed consensus or agreement between groups of managers (usually the Top Management Team). The content of consensus (ie what the managers agreed or disagreed about) varies across a range of strategy dimensions. In all the studies it is agreement (or lack of agreement) that is the focus of attention, rather than the organizational (or other) processes that have caused agreement.

These nine studies could, then, be described as "content" studies of consensus.

There is a related body of research that is concerned with consensus as a decision making process. These include "laboratory studies" by Whitney and Smith (1983), Schweiger, Sandberg and Ragan (1986), and Tjosvold and Field (1983). In these studies agreement was measured among members of small groups focussing on a discrete problem.

These two groups of studies, the "content" studies, and the "process" studies, raise some of the problems surrounding research into consensus. Some difficulty arises from quite different uses of the term "consensus". The first group of studies refer to consensus as an outcome; consensus is a measure of the extent of "agreement". For example, in their summary of research into this field Dess and Origer (1987) suggest that "consensus [is] viewed as an outcome and is generally defined as agreement" (1987:317). Seen in this way, consensus lends itself to measurement, and hence to the testing of hypotheses. For example, Grinyer and Norburn define consensus as "a statistically significant level of shared perception" (Grinyer and Norburn 1975:73).

The other use of the term refers to consensus as a process (as in "the process of building consensus" Dess and Origer 1987: 313). The continuing debate surrounding the efficacy of "structuring" the strategic decision making process (dialectical enquiry (DI), and devil's advocacy (DA)), has been extended to encompass a consensus seeking approach (Cosier 1978, Mason 1969, Schwenk and Cosier 1980, Cosier and Rechner 1985, Schweiger, Sandberg and Ragan 1986). Schweiger and Sandberg (1989) suggest that "consensus encourages open discussion among group members". In their instructions to students using a consensus approach they point out that "through discussion, questioning, and more complete exchange of information and opinion, the group seeks a better recommendation than might be produced by a single person. It is

not necessary that each person be completely satisfied with the assumptions and recommendations-only that each can accept them on the basis of logic and a willingness to consider them as feasible. Consensus is said to exist when ALL group members can accept the assumptions and recommendations on this basis."(Schweiger and Sandberg 1989:34-35)

In a similar vein, Skivington and Daft (1991) refer to senior management "champions" who work to bring about "changes in shared meaning and to build consensus concerning the new strategy" (Skivington and Daft 1991:49).

So, using this extended definition, consensus implies an improvement in the quality of the decision outcome, and it exists only when all members of the group can accept the recommendations.

In a recent study into the involvement of middle managers in strategy formulation Wooldridge and Floyd (1990) define consensus as "shared strategic understanding and commitment" (Wooldridge and Floyd 1990:232). Their theoretical model posits that middle management involvement will improve both the content of strategies, and the implementation of strategies.

So now the picture is further complicated. There is consensus as a measurable outcome, consensus as "agreement", consensus as unanimity, consensus as implying commitment.

In this study consensus is defined as "shared perceptions" about, in this case, strategic priorities. This is a very restrictive definition. "Shared perceptions" does not imply any normative involvement with the priorities perceived. It does not, therefore, imply any commitment to these priorities. For example, we might record that a group of people perceive the government to be pursuing particular policies, but this would not imply that they necessarily agreed that these policies were "a good thing". So, there is no attempt, in this study, to investigate the processes that lead to consensus (or a lack of consensus), and there is also

no attempt to gauge the commitment managers may or may not have to the strategic priorities they perceive to be extant in their SBU.

This restrictive, but arguably more precise definition of consensus is appropriate to the research problem being addressed. As proposed in Chapter 1, the perceptions managers, across the SBU and at different levels of the hierarchy, have of the strategic priorities extant in the business are a valid source of information about SBU realised strategy. The assumed connections between these perceptions and realised strategy are strengthened if one assumes there to be causal links between managerial perceptions and managerial actions. Thus, through accessing the managers' perceptions of current SBU strategic priorities a "snapshot" of realised strategy can be inferred. In this way the multi-dimensional and complex processes that influence perceptions (the processes that preceed the taking of the "snapshot"), and the linkages between perceptions, actions and realised strategy that operate concurrently with the "snapshot" are excluded from direct empirical investigation.

The processes and contextual variables that influence consensus, although not directly addressed in the methodology, are discussed below. This review and discussion of the literature will contribute to the interpretation of the results of the empirical investigations into managerial perceptions.

2.4 CONSENSUS: SCOPE, CONTENT AND STRATEGY MAKING PROCESSES

All the "content" studies of consensus have been restricted to the Top Management Team (TMT). The main argument for limiting the scope of these studies rests on the normative assumption that strategy is formulated by this group (Ansoff 1965; Andrews 1971; Thompson 1967). However, research into strategy making

processes has revealed a much wider involvement of managers (Ouchi 1981, Quinn 1980; Mintzberg and McHugh 1985). This would suggest that restricting consensus studies to just the TMT might be a mistake (Wooldridge and Floyd 1989). Moreover, a lack of consensus about strategic priorities revealed between the top level and middle levels of the organization could signify problems in strategy implementation (MacMillan and Guth 1985; Wooldridge and Floyd 1989).

The content of consensus refers to what managers agree about. Studies exploring consensus on means and ends are the most relevant to this research (Bourgeois 1980; Dess 1987). Synoptic models of strategy formulation (Fredrickson 1983) require that strategic goals and methods are sequentially identified. Strategic choice among alternative means is based on their contribution to goal attainment. Strategy formulation is followed by a distinct phase of strategy implementation that involves a variety of administrative tactics (Galbraith and Kazanjian 1986).

In contrast, incremental models of strategy making acknowledge the non-comprehensiveness of the process. Decision makers have a limited capacity for processing information (Lindblom 1959), organizations are political (and hence "non-rational") (Narayanan and Fahey, 1982; Mintzberg 1983), and that strategy often results from autonomous initiatives at operational levels in the organization (Burgelman 1983). Between the extremes of the rational-comprehensive model and "muddling through" lie the real-world approaches we would expect to see in organizations (Mintzberg and Waters 1985).

Wooldridge and Floyd (1989) argue that, because in the synoptic approach the involvement of middle management is restricted to implementation, and because "strategy formulation is the domain of the TMT ...the scope of consensus is likely to be restricted to TMT members" (Wooldridge and Floyd 1989:297). They go on to suggest that the content of consensus develops sequentially in the synoptic context (consensus about the environment, followed by

ends consensus, then means consensus). They propose that, as the level of synopticism in the strategic process increases so does the probability that shared understanding among the TMT will be high.

However, it could be argued that synoptic processes are more likely to be features of stable organizations facing stable environments (Fredrickson and Iaquinto 1989), and, if strategy formulation is kept exclusively as the preserve of the TMT, then it is likely that the the organization is not facing complexity, or diversity in its environment (Quinn, Mintzberg and James 1988; Bowman and Asch 1987;). These contextual conditions would indicate that strategic changes are unlikely to be large in scope, or frequent, and that the "mission" of the organization is likely to be well understood by managers at many levels of the hierarchy, not just the TMT. For these reasons we might expect that, even where synoptic processes are being used, consensus may be high across organizational levels, as well as within the TMT.

The more informal, decentralized incremental processes (Fredrickson 1986; Quinn et al 1988; Pascale, 1984) suggest that the scope of consensus encompasses individuals both within and outside the TMT. "Formal organizational position may have little to do with who participates in, or their relative influence on, the strategic process." (Wooldridge and Floyd 1989:298). Bower (1970) contends that lower level managers can be rather influential in the outcome of strategic decisions, and Schilit (1990) presents empirical evidence that indicates that middle level managers are very successful in exerting upward influence on strategic decisions. But "while the scope of consensus may or may not include the TMT early in the process, incremental decisions ultimately involve top management agreement" (Wooldridge and Floyd 1989:298).

Due to the non-comprehensive nature of incremental processes only a severely limited range of options is considered (Lindblom 1959), and ends can often only be inferred from emergent

decisions. Although incrementalism can be viewed as a consensus-seeking process, the process can also involve bargaining, and acquiesence from groups outside the initiating coalition (Narayanan and Fahey 1982). This would suggest that incrementalism may lead to shared understanding of the emerging strategy, but that commitment to the strategy may only be strong within the initiating group.

Because of problems with synoptic processes, particularly problems in implementation, and through personal experience of working with senior managers from a wide variety of firms, I would conclude that in most firms the strategy processes tend towards the incremental end of the synoptic-incremental continuum. This would suggest that distinguishing between means and ends in the rational-comprehensive sense may not be particularly useful in this research, notwithstanding the fact that the two most directly comparable studies to this one maintained this distinction (Bourgeois 1980; Dess 1987).

These studies of consensus and performance have produced some puzzling relationships. Bourgeois (1980) found that goals disagreement was related to good performance, Dess (1987) found that good performance was associated with either consensus on means, or consensus on ends, but not consensus on both means and ends. Grinyer and Norburn (1977-78) found no significant relationship between goal consensus and performance for the whole sample, and a negative relationship among the six highest performing firms (ie goal disagreement related positively to performance). Further, Bourgeois (1978), in a study of strategy making processes in 20 American firms, found that goals disagreement correlated positively with economic performance.

These inconclusive and somewhat contradictory results may be explained in part by the rather vague nature of the goals researched (eg "Employee rewards and benefits; company prestige; innovation; service to the community" Bourgeois 1980:245; "Recognition as an innovative firm; retaining key personnel;

market penetration; management development selection" Dess 1987:269). It is possible that even members of the TMT might find it difficult to operationalise goals couched in these terms. Furthermore, invoking the concept of equifinality (Kast and Rosenzweig 1974), there may be many routes to the achievement of these goals, which might complicate the links between ends and means in this type of research.

There have been attempts to explain negative relationships between goals agreement and performance. For example, Bourgeois (1980) concludes that "managements of high performing firms held divergent goal sets as a reflection of multiple advocacy resulting from recognition of diverse environmental constituencies (customers, suppliers, stockholders etc)" (Bourgeois 1980:233). Others have argued the positive aspects of goal diversity (Lawrence and Lorsch 1967; Weick 1977; Murray 1989). Diversity in management perspectives, backgrounds and values may be functional particularly where the organization faces a dynamic environment (Murray 1989). And Hrebiniak and Snow (1982) tentatively suggest that consensus may be negatively related to performance under conditions of high environmental complexity (Hrebiniak and Snow 1982:1141).

Bourgeois' (1980) results may well be more a reflection of a poorly posed research problem, rather than an indication of a substantive issue in the strategic management of firms. For example, Wooldridge and Floyd (1990) suggest that an important variable, the decision process, was excluded from the Dess and Bourgeois studies. They argue that:

"consensus on ends and means may not be relevant to incremental processes; instead consensus forms around specific strategic actions...Less explicit than the goals and means of synoptic strategy, TMT consensus in an incremental setting also reflects realized TMT priorities" (Wooldridge and Floyd 1989:300).

They go on to argue that, as priorities are observable from

decisions made, they are transmitted up, down and across the organization whether or not there are formal attempts to communicate them. As a result, consensus on priorities does not depend on an explicit articulation of ends and means. Priorities can also be derived from synoptically formulated goals and means. For instance, if a firm's objective is market dominance, and the strategy is cost leadership, priorities may be expressed by encouraging automation, improved logistics, overhead cost reduction, etc. "Thus, since priorities have both an intended and emergent character, they have the potential to reflect the content of consensus in both synoptic and incremental settings" (Wooldridge and Floyd 1989:300).

The contributions of Wooldridge and Floyd (1989,1990) arrived after the decisions about the scope and content of this research were made. However, the construct used in this research is very similar to Wooldridge and Floyd's 'priorities'. Because the focus of the research is realised strategy, in many respects "ends" are not directly relevant. Intentions behind strategic actions, and the extent that intended strategy (if there is one) feeds through to become realised strategy is not of immediate concern here. In Chapter 3 the derivation of the research instrument is explained in detail. At this stage, we can summarise the preceeding discussion and its implications for this study as follows:

(1) Consensus is defined here as "shared perceptions" of strategic priorities. It is not used in its "process" sense; it does not imply commitment; it should be capable of measurement.

(2) The "content" of consensus, strategic priorities, is a "process neutral construct" (Wooldridge and Floyd 1989:301).

(3) Because the focus of the research is realised strategy, and because of the theoretical and methodological problems outlined above, perceptions of "ends" or "goals" have been excluded from this study.

The associations between strategy making processes and consensus were first introduced in Chapter 1. This discussion addressed the normative assumptions in the prescriptive strategy literature that a shared understanding of the strategic direction of the firm was important for successful strategy implementation, and hence to firm performance. Furthermore, a major theme of the consensus studies discussed above is the link between consensus and firm performance. This suggests that the following hypothesis would be usefully investigated in the present study.

*** H8: Consensus on strategic priorities is positively related to SBU performance**

2.5 CAUSES OF SHARED PERCEPTIONS OF REALISED STRATEGY

In this section we explore the process dimensions, in addition to the strategy making processes, that might have an impact on the formation of consensus about an SBU's strategic priorities. The following section studies contextual, or situational factors that might affect the extent to which managers may perceive the same strategic priorities.

2.5.1 CONSENSUS AND ORGANIZATIONAL PROCESSES

Firstly, we should consider process variables that are likely to lead to stability in the realised strategy. Stinchcombe (1965) noted that pressures for the permanence of organizational characteristics are the result of two separate sets of influences:

conditions at the time of the organization's founding, which he called "imprinting forces", that strongly define initial characteristics and create internal consensus around the initial form of the organization; and "traditionalizing forces"-events subsequent to founding- that tend to preserve previously adopted organizational characteristics. Boeker (1989) suggests that "the extent to which consensus develops around a strategy at founding may make the strategy less open to subsequent questioning or redirection by organizational participants" (Boeker 1989:492).

Over time a given strategy attracts and fosters a set of managerial values and philosophies that are wedded to the strategy (Guth and Tagiuri 1965), limiting the range of future strategic choices that are considered. Hurst et al argue that diversity in the personality types of Top Management Team is important if organizations are to be able to continually be creative and innovative (Hurst, Rush and White 1989). Srivastava (1985) suggests that reaching a consensus understanding of problems is affected by symbolism, ceremony and rituals, while choosing strategic solutions is influenced by value systems.

Johnson (1987) points up the powerful influence of culture in preserving a "paradigm". He found that "this set of beliefs, which evolved over time, embraced assumptions about the nature of the organizational environment, the managerial style in the organization and the nature of its leaders, and the operational routines important to ensure the success of the organization" (Johnson 1987:271).

Schein (1986) indicates the positive role culture can play if it helps to provide consensus on mission, means and criteria for measuring results. However, he suggests that the most powerful mechanisms for embedding and reinforcing culture are found in the actions, functions and behaviours of management. Kerr and Jackovsky (1989) point out how "training and orientation sessions can be used overtly for socialization and exposure to the organization's values" (Kerr and Jackovsky 1989:160-161).

The effects of different decision making processes have already been considered. If incremental processes involve many levels of management in the formulation of the emerging strategy, there is likely to be a high degree of shared perception about the strategic direction of the SBU. In synoptic processes centralization of authority may be related to consensus building (Miller 1987). Three of Bourgeois and Brodwin's (1984) styles of strategy implementation are likely to encourage shared perceptions about strategy (the "collaborative", "cultural" and "crescive" approaches).

TMT stability is linked to stability in realised strategy. Grinyer and Spender (1979) found that organizations initiated basic changes in strategy or structure only after replacement of senior managers or the departure of the founding entrepreneur, and Helmich and Brown (1972) found that executive succession leads to organizational changes.

There are general cultural norms supporting the notion that good leaders and managers are consistent and remain committed to decisions once they have made them (Boeker 1989; Staw 1981). Groupthink pressures can operate to preserve the existing strategic direction (Janis 1972), and cohesiveness leads to reduced receptivity to information which conflicts with group beliefs (Whitney and Smith 1983).

"As long as profit performance is satisfactory, firms will continue to allocate internal resources using whatever rules of thumb they've used in the past" (Oster 1982:377), and Mintzberg (1983) noted that high-performing organizations are seldom faced with stakeholders who advocate fundamental changes in basic operations. Dess (1987) argues that"..higher levels of performance lead to consensus among TMTs on either objectives or competitive methods if for no other reason than everybody likes to be identified with a winner" (Dess 1987:266), and Boeker coins the phrase "if it isn't broke, don't fix it" (Boeker 1989:496).

These contributions would suggest that consensus about strategic priorities would be negatively related to organizational change, ie the greater the turbulence in the organization the less the likelihood that stable, shared perceptions of the the organizations strategic direction would emerge.

However, Hambrick (1981) reports that the results of his study "consistently indicated that strategic awareness is greater in organizations that have recently undergone strategic change than in those that have not" (Hambrick 1981:272). His results suggest that managers tend to lose sight of an enduring strategy, and, "rather than it becoming embedded in their minds, it slips from their minds" (Hambrick 1981:273). Hence two plausible, but opposite relationships between consensus and change can be inferred from the literature. H9 sets out to test for a negative relationship between consensus and change.

*** H9: Consensus on strategic priorities is negatively related to organizational change**

We now consider process effects that might lead to strategy instability, and possibly to a lack of consensus about the strategic direction of the SBU.

Dess argues that "environmental perceptions vary with such factors as individual differences, individual repertoires and social expectations and they serve to influence the objectives and competitive methods espoused by TMT members" (Dess 1987:265). Astley et al contend that the organization's division of labour creates 'local' perspectives on each topic. Dearborn and Simon (1958) found that managers perceived issues in a selective way, depending on their functional background, and Dess (1989) argues that:

"if the roles among members of the TMT are highly differentiated--resulting in a higher division of labour--one may expect a lower level of consensus or shared perspectives among the TMT....If all (or several) members of the TMT are not privy to the same strategy-related information, or if the information must pass through several layers in the organizational hierarchy (leading to information distortion) before reaching members of the TMT, a lower level of consensus is likely to result" (Dess 1987:265).

In-fighting or hidden agendas held by managers would tend to suppress consensus, primarily because it would make compromise difficult and lead to entrenched positions on the strategic direction for the SBU.

It is possible that poor performance may lead to conflict and disagreement regarding what the strategy should be, and hence to a lack of consensus, particularly if the SBU is in a state of flux as the old consensus about strategy is challenged and discredited (Johnson 1987). Thus, the direction of causation hypothesised in H9 may be reversed in some circumstances. If the "snapshot" of managerial perceptions coincides with this state of flux poor performance may have determined low consensus.

We now address the environmental variables that may impact on the formation of shared perceptions amongst a management group.

2.5.2 CONSENSUS AND ENVIRONMENT

Contingency theorists have argued that innovation, and the uncertain environments that seem to necessitate it, require organismic (Burns and Stalker 1961), decentralized, and differentiated (Lawrence and Lorsch 1967), and intensively integrated structures (Galbraith 1973; Thompson 1967). Flexibility in the structure, coupled with decentralization may

lead to divergent interpretations of strategic priorities, and hence to low consensus.

Pfeffer and Leblebici (1973) argue that competition increases the external pressure or constraints placed on an organization. They hypothesize that greater competition leads to "a demand for even more interlocking of organizational behavior and more coordination and control within the organization" (Pfeffer and Leblebici 1973:270). Dess (1987) suggests that, in competitive environments "a high level of consensus should lead to a higher level of performance because during periods of resource scarcity a 'unified direction' for the organization becomes of primary importance" (Dess 1987:266). However, Bourgeois and Eisenhardt (1987) suggest that attempting to build consensus may be hazardous if the firm is facing a high-velocity, high-tech environment, due to the time lags involved in consensus-building processes.

Bourgeois (1981) suggests that organizational slack serves as a resource for goal conflict resolution and as a means for experimenting with new strategies. Slack resources may mean that TMT participants are not forced to select a few goals, or a limited number of means from the many available.

Khandwalla (1976) found that when managers perceive their environments as dynamic and uncertain their strategies are likely to be more multi-faceted. And Pfeffer and Leblebici (1973) imply that differences between industries, such as the amount of competitive pressure in the industry, affect the executives' awareness of their firm's strategy; strong competitive pressure increases awareness of strategy, which should result in higher consensus. Duncan (1971) established that individuals in SBUs facing dynamic and complex environments experience the greatest amount of uncertainty in decision making. Environmental dynamism and complexity may therefore be associated with low consensus about the strategic priorities the SBU should pursue.

To summarise, SBUs facing dynamic and complex environments are likely to respond with organizational structures that are flexible, decentralized and differentiated. On the other hand, in hostile environments (which do not permit the generation of slack) unity of direction is likely to be necessary for above average performance. Dess and Origer (1984) propose that "higher performing firms that compete in an industry characterized by high complexity (and/or high dynamism) have a higher level of integrating structure [committees, teams, task forces, coordinators] than less successful firms" (Dess and Origer 1984:328). So, SBUs facing hostile, dynamic, complex environments may find it hardest to generate shared perspectives of organizational priorities, but those that succeed are likely to be above average performers.

Therefore, if an SBU displays a low degree of consensus about strategic priorities this could be explained by the process variables and/or the environmental variables discussed above.

To conclude the chapter the connections between competitive strategy and consensus, introduced earlier, are revisited.

2.6 COMPETITIVE STRATEGY AND CONSENSUS

The review of the literature concerning competitive strategy, and consensus suggests that SBUs pursuing cost leadership strategies are likely to be facing relatively stable environments. Asset intensity, and organizational arrangements of a machine bureaucratic nature (Miller 1986) associated with cost leadership, would indicate the presence of organizational stability. This stability coupled with the essentially straightforward nature of the strategy would generate a high degree of consensus, not only about what the strategic priorities are, but also about what the SBU is NOT trying to achieve (eg priorities to do with differentiation).

In contrast, Govindarajan (1988) argues that the choice of a differentiation strategy rather than a low-cost strategy would increase the uncertainty in a firm's environment, with the uncertainty arising out of both environmental unpredictability and complexity. This uncertainty may well result in a relative absence of consensus about strategic priorities in firms pursuing differentiation strategies.

This suggests the following hypothesis:

*** H10: Where managers perceive their SBUs to be pursuing a strategy of cost leadership there will be a high degree of consensus about all dimensions of competitive strategy.**

2.7 COMPETITIVE STRATEGY: ACADEMICS' PERCEPTIONS AND MANAGERS' PERCEPTIONS

This study provides an opportunity to test out whether managers do conceive of competitive strategy in the same way as academics. Specifically, do Porter's generic strategy concepts coincide with the way managers view the strategy of their SBU? Because the research design is based on a Portersque notion of competitive strategy (for the reasons outlined at the beginning of this chapter) it is not appropriate to address this interesting research problem in the main body of the thesis. As a result the following hypothesis is explored in a separate chapter (Chapter 5) where the relevant methodology is outlined and explained.

*** H11: Managers perceive of competitive strategy in line with Porter's Generic Strategy concepts**

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This chapter sets out the approach used to address the following aspects of the statistically-based part of the study:

* establishing an appropriate sample
* questionnaire design, and pilot testing
* the classification of SBU realised strategies
* the measurement of SBU performance
* the measurement of consensus
* the measurement of change
* hypothesis testing

To begin the exploration of these methodological issues some general aspects of research design are addressed.

According to Weick (1979), the sacrifice of simplicity for accuracy is one of the inevitable trade-offs that must be made to avoid inconclusive or trivial research findings which result from simultaneously pursuing generalizability, accuracy and simplicity. In the context of this study the major trade-off is between an in-depth understanding of a very few SBUs, or limited insights into a larger number of SBUs. At the extreme the research could be located in one SBU (Johnson 1987). Such a

focus would result in an accurate picture of the SBU, and this type of research can also help us to examine, explicate and critique theory. However, one drawback of these studies is that there may be problems if the conclusions drawn from an in-depth study of one organization are inappropriately extrapolated to other situations. Hence, care needs to exercised in generalizing the results of such studies.

The main research instrument used here is a 21 statement questionnaire which requires the manager to rate his SBU's current situation on statements about strategic priorities, and dimensions of organizational change. This approach rests on an assumption that, firstly, managers' responses to the statements reflect their "true" perceptions of their SBU's situation. In this role, the managers are acting as informed observers of the SBU's activities. Secondly, as outlined in Chapter 1, the individual manager's perceptions will affect his or her behaviour, and, in turn, this behaviour influences the realised strategy of the SBU. Thus, by accessing managers' perceptions we can then make inferences about the realised strategy of the SBU.

Previous studies into consensus (Dess 1987; Bourgeois 1980) have implicitly assumed that perceptions, revealed through questionnaire responses, indicate realised strategy. But the connections between perceptions, responses, behaviour, realised strategy and performance were only partially worked through in these studies. For instance, Dess and Davis (1984) report that "when the research instrument was constructed it was assumed that all members of the top management team had knowledge of the strategy of their firms, and that the strategy could be inferred on the basis of the emphasis or importance given various competitive methods available to the firm" (Dess and Davis 1984:470). Similarly, Snow and Hrebiniak assume a connection between managers' perceptions of distinctive competence and actual (or realised) distinctive competence.

The perceptions-behaviour connection is supported by

subscribers to cognitive theories of reality construction (Berger and Luckmann 1966). Perceptions are models of reality, they guide and direct behaviour (Gronhaug and Falkenberg 1989; Gioia and Sims 1986). People have limited cognitive capacities, and cognitive models are used to interpret, "make senses of" complexity (March and Simon 1958).

The link between the research tool for measuring perceptions, and the "actual" way the manager sees the strategy of the SBU is another problem area. Does the terminology used in the questionnaire have meaning for the respondent? Does it have the same meaning for the respondent and the researcher (Stubbart 1989)? Managers may define categories differently from researchers (Ford and Hegarty 1984; Shrivastava and Lim 1984). Jackson and Dutton (1987) found that managers do not necessarily perceive opportunities and threats as opposites, and Stephenson found that different criteria and frames of reference were being used to classify strengths, and weaknesses. Competitors may also be perceived differently (Baden-Fuller et al 1987; Hodgkinson and Johnson 1987; Reger 1987).

These issues are discussed further in the sections on the development and pilot testing of the questionnaire below.

3.2 SAMPLING

Support for the use of multi-industry samples comes from Snow and Hrebiniak (1980), who suggest that "the power of the theoretical framework [they developed and researched] would be increased substantially if the predicted relationships...were observed in widely divergent industries." (Hrebiniak and Snow 1980:322) (Skivington and Daft also point out the advantages in being able to generalize from "coarse grain" studies, 1991:50). In three previous studies into consensus multiple industry SBU samples were used:

* Grinyer and Norburn (1977-78): 91 managers from 13 industries

* Bourgeois (1980): 67 managers from 12 SBUs from 11 industries

* Stagner (1969): 217 executives from 109 Fortune 500

However, reviewing these and other studies Dess (1987) argues that the "conflicting results obtained in previous field studies on the relationship between consensus and performance may be partially due to samples consisting of firms facing different industry environments" (Dess 1987:261)

This is a strong argument for locating studies that research links between some dimensions of the SBU, and performance, in the same industry. Dess and Origer (1987) broaden the criticism of previous multi-industry studies by pointing up the absence, in many of the studies, of a framework which integrates important variables which may explain and predict the nature of the consensus-performance relationship. To overcome the problems posed by sampling from different industry environments, Dess locates his study in a single industry: the paints and allied products industry in the USA. It is worth examining this approach in some detail in order to identify its strengths and shortcomings.

Dess (1987) cites evidence to suggest that his chosen industry was highly competitive, resulting in poor average profitability. It might well be the case that the particular circumstances in this industry would result in commodity-like competitive conditions, with competition being mainly based on price, and a heavy emphasis on cost reduction strategies. If this was indeed the situation in the paints and allied products industry, we might, a priori, expect there to be a high degree of consensus on competitive methods across the whole industry. Efficiency and competing on price are strategies which are relatively clear and

unambiguous, and there are well understood management routines to aid implementation (cost measurement and control).

By selecting firms in the same industry the advantages of having meaningful performance measures need to be offset by two industry specific conditions which are central to the research questions set by Dess. So, by selecting this poor performing industry, which is mature, and in some respects, commodity-like, there is likely to be a high degree of consensus on competitive methods (evidenced by Dess 1987 Table 3), and little variance in firm performance.

There are other problems with the single industry study. The definition of the industry is an art not a science. Dess (1987) used the standard US industrial classification to generate his database. But in this geographically fragmented industry, SBUs may not be in competition with each other, and there may be local industry conditions which permit certain SBUs to perform well above or well below the average. These conditions may overwhelm the consensus effects being studied.

The second problem of industry definition returns us to the differences between the researcher's definition of the competition, and the manager's definition. Dess (1987) imposes his industry definition on the managers, who may well take a different view of who their competitors are. This problem is central to Porter's important contributions on the effect of industry structure on industry performance. It provides many opportunities for academics and managers to disagree. Moreover, the managers may perceive the competition in terms of firms who make the same things; consumers may define the firm's rivals on the basis of needs they want satisfying. Hence the blurring between the two categories of competitive rivals, and providers of substitute products or services.

With respect to Dess and Origer's (1987) criticism that previous studies have lacked an integrating framework, the model

introduced in Chapter 1 provides just such a framework. Of relevance in this discussion are the moderating effects of industry environment, organizational environment, management values and cognitive bases. All these will moderate the causal links between perceptions, consensus and performance.

The main argument supporting the use of single industry samples rests on the measurement of performance, and the impact of industry structure on SBU performance. This problem is explored in more depth later in this chapter.

To gain the benefits of having SBUs representing a spread of industries, and, in order to compare firms within a single industry, the sample of SBUs used in this study contains businesses from service industries, manufacturing industries, and 11 SBUs from the same industry, publishing.

The number of SBUs in the sample should be large enough to permit meaningful statistical testing. Following Terpstra (1981) a sample size of greater than 30 was deemed the minimum acceptable. In fact, the final sample was made up of 38 SBUs.

In order to address the second major theme of the study, namely managerial perceptions of competitive strategy and their relationship to Porter's generic strategies, a minimum mixed (ie multi-SBU) sample of managers of 300 was considered appropriate (based on the requirements of factor analysis: Terpstra 1981; Dess and Davis 1984). In the event, the "managerial database" included over 1100 managers.

3.3.1 QUESTIONNAIRE DESIGN: CONTENT

In selecting the dimensions of realised strategy to be researched the issue of the possible differences between academics'

perceptions of competitive strategies, and managers' perceptions must be addressed. In addition, the scope of the research into realised strategy needs to be considered. For example, should the study take a broad definition of strategy which encompasses all the following dimensions:

A) the objectives of the SBU (eg. sales revenue growth, market share, gross profits, financial independence)

B) the direction of development (eg. withdrawal from some markets, consolidation, increased penetration of existing markets, growth through new product development, diversification)

C) the methods of development (eg. internal development, joint development, acquisition)

D) the bases of competition (eg specialization, innovation,branding, low price, product quality, channels of distribution, pricing policy)

Or should a more restricted scope be adopted? Previous studies have focussed on sub-sets of these four categories: goals, and "means", competitive methods (Dess and Davis 1984; Dess 1987; Govindarajan 1988); strategic priorities (Wooldridge and Floyd 1990); distinctive competences (Hitt and Ireland 1985).

In determining the more restricted scope of the questionnaire, it was important to clarify the differences between this research and previous, similar studies. Previous research into perceptions of strategy dimensions have focussed on the top management team. It is realistic to expect that the top management team would have views about all four of the broad strategy dimensions listed above (ie objectives, direction of development, methods of development, competitive strategy). However, an important difference in this research is the inclusion of managers below

the TMT in the survey. These managers may well be unaware of some of these strategic dimensions, particularly the current thinking about methods and direction of development. It might also be the case that managers below the TMT may have only sketchy understanding of the explicit objectives of the SBU (and, of course, they may be even less aware of implicit goals).

However, it seems reasonable to assume that strategic priorities associated with the competitive strategy of the SBU may be understood at middle and lower levels of the hierarchy. The suggestion is that functional managers would be aware of SBU level strategic priorities, as they would experience the implications of these priorities in their everyday managerial work. These priorities can be conceived of as intermediate level constructs, less general than Mission Statements (eg "to provide excellent service to our target customers"), but less specific than functional objectives ("to reduce scrap and reworking costs by 25%"). The priorities are directed at the competitive strategy of the SBU, and may be viewed as critical success factors that, in combination, summarise and determine the realised competitive strategy of the SBU.

The problem of differing perspectives between academics and researchers with respect to relevant dimensions of competitive strategy poses a major difficulty. In seeking to derive a research instrument that is generalizable previous researchers have looked to established strategic typologies (notably Porter 1980, and Miles and Snow 1978). The advantages of using an existing widely used typology as a basis for generating the questionnaire statements are, firstly, that the findings of the research will be more easily interpretable by other researchers, and, secondly, using an existing typology provides an opportunity to empirically test that typology.

But there are strong arguments against using such typologies. Porter's generic strategies are grounded in theoretical argument augmented by anecdotal, case-based examples. Miles and Snow's typology was derived from a study of a small (in research terms)

number of firms. So neither of these popular typologies has a solid grounding in empirical research. The second problem with these typologies is that they are couched in terms that make sense to the academic, and they use their own terminology. If one were to use either of these approaches in researching managers perceptions the terms used by Porter and Miles and Snow would probably need to be "translated" into language more likely to be familiar to practising managers (eg "differentiation", "analyser").

But the biggest problem in using standard typologies is that they assume an approach to competitive strategy that may bear little relationship to how strategy is actually conceived of by practising managers (Stubbart 1989). It may also be the case that Porter has not captured all the alternative ways of gaining competitive advantage, and in a given industry there may be different categories of strategic behaviour to those proposed by Miles and Snow. So the danger is that by using an existing typology we already constrain the research, narrowing the possible outcomes to those assumed in the design stage of the questionnaire.

A viable alternative would be to research individual SBUs without a preconceived typology. For example, structured interviews could be held with senior managers to derive a set of statements that captured the relevant dimensions of strategy for that SBU. This set of statements could then be used to explore the extent of consensus across levels, and across functions. Alternatively, repertory grid techniques could be used to derive managerial constructs (Reger 1987). However, although these approaches would probably improve the accuracy of the research, they may severely restrict the generalizability of the study, reducing opportunities to aggregate data, and to make comparisons across SBUs.

3.3.2 DERIVING THE STRATEGIC PRIORITY STATEMENTS

The approach adopted here is to base the questionnaire around an existing academically derived typology. In order to reduce the problems of interpretation, and problems resulting from a possible lack of relevance to priorities perceived by managers, the questionnaire has been extensively pilot tested and refined.

Following Dess and Davis (1984), this study uses strategic priority statements derived from Porter's Generic Strategy concepts (Porter 1980;1985). Although Porter suggests there are three Generic Strategies (Cost Leadership, Differentiation and Focus), the Focus strategy has been excluded from this study as:

"the focus strategy...merely takes the form of either the low-cost or differentiation strategy "focussed" on a specific industry segment." (Govindarajan 1986:847)

In line with Dess and Davis's study (1984), the writings of Porter and other strategy researchers (including Child 1975; Bourgeois 1980, and Khandwalla 1976) were reviewed to enhance the content validity of the statements of competitive methods.

Boeker (1989) argues for the use of strategic typologies in this kind of research: "such typologies are especially useful for parsimoniously conveying fundamental differences in the strategic approaches taken by organizations." (Boeker 1989:491). Other relevant prior research includes those studies that have tried to, inter alia, test the validity of the Generic Strategy concepts (Hambrick 1983 and 1985; Miller 1988 and 1986).

In seeking to dissemble competitive strategies into specific statements researchers have adopted various approaches. Govindarajan (1988) asked SBU general managers to position their products relative to those of leading competitors in the following areas: selling price; percent of sales spent on R&D; percent of sales spent on marketing; product quality; brand

image; product features (Govindarajan 1988:851). Dess (1987) derives a much longer list of "competitive methods" which include a number of statements which seem to have only tenuous links to competitiveness:

* minimising the use of outside financing

* forecasting market growth

Bourgeois (1980) lists 23 competitive methods which include financial liquidity, new sources of funds and employee morale, as well as more straightforward method of competing (low price, brand image, customer credit).

Wooldridge and Floyd (1989) suggest that:

"priorities seem well suited to describe the content of consensus...[they] are consistent with incremental processes. Since they are observable from decisions made, priorities are transmitted up, down and across the organization whether or not there are formal attempts to communicate them. As a result, consensus on priorities does not depend on an explicit articulation of ends and means...Priorities can be derived from synoptically formulated goals and means..Thus, since priorities have both an intended and emergent character, they have the potential to reflect the content of consensus in both synoptic and incremental settings." (Wooldridge and Floyd 1989:300)

Hence, priorities are a process neutral construct.

The statements derived from Porter's generic strategies are couched in terms which accord with Wooldridge and Floyd's concept of priorities. The current research is directed at realised strategy, not at the decision making processes that have led to realised strategy. Thus, the fact that the statements about strategic priorities used here are "process neutral" means that there should be no unintended bias introduced into the research,

that may result from not controlling for the strategy making processes used by the SBU.

3.3.3 QUESTIONNAIRE DESIGN: SCALE AND RUBRIC

Dess (1987) uses a five-point scale in his questionnaire where 1 = "not at all important", 5 = "extremely important". Each respondent was asked to indicate how important a list of competitive methods was to their firm. Dess stresses that he is trying to "obtain an indication of the extent of consensus or 'shared perspectives' regarding the relative importance of different aspects of what a given firm's strategy actually is.." and "the purpose was neither to determine the process by which consensus (or lack thereof) was obtained nor individual preference orderings among TMT members concerning what the strategy of a given firm should be". Despite this aim to exclude a normative element from the research, by using "important" in the rating scale this may be misconstrued by the respondent. For example, the manager may reason that "I believe this statement is important, but we're not doing it now". (See also Dess and Davis 1984).

This approach was also adopted by Bourgeois (1980). His instructions read:

"Below are listed several items which might be used as methods for competing in your industry. Please indicate the degree of importance your firm attaches to each item as a part of its overall strategy" (Bourgeois 1980)

Both Dess and Bourgeois attempt to validate the statements by referring them to CEOs in the chosen industries. Bourgeois asks CEOs to rank the five most critical "competitive weapons" from those on the list plus any the CEO wished to add to the list. The instrument derive by Dess and Davis (1984) was "modified" after discussions with CEOs in the chosen industry "in order to

enhance [the questionnaire's] ability to capture competitive methods that identify the strategic orientation of a firm's decision makers" (Dess and Davis 1984:471). This approach was manageable because the research was conducted from within one industry, the paint and allied products industry.

Hitt and Ireland's (1985) study of corporate level distinctive competences used a seven-point Likert-type scale ranging from "greatest strategic significance" to "completely strategically insignificant" (Hitt and Ireland 1985:279). Snow and Hrebiniak (1980) favoured a three category scale where activities were to be rated as a "strength", a "weakness" or "OK" (presumably some neutral judgement in between strength or weakness).

In this study the respondents were asked to rate their SBU on a five-point scale where 1="This statement does not apply to our firm", and 5="This statement accurately describes the situation in our firm". The respondents were instructed in the introduction to the questionnaire as follows:

"If the statement does not apply at all to your firm then circle (1). If the statement accurately describes the situation in the firm, circle (5). The numbers (2) to (4) enable you to indicate intermediate positions in between these two extremes"

The introductory rubric continues as follows:

"Please note that we are interested in your firm's CURRENT STRATEGY; the statements refer to what your firm is doing NOW, not what you think it might be doing some time in the future."

In contrast to the brief statements of competitive methods used by Bourgeois (1980) and Dess (1987), most using only two or three words, this study uses complete sentences (eg. "We aim to be the lowest cost producer in our industry").

This style of questionnaire was adopted for the following reasons:

* The rubric to the rating scale was constructed to exclude any normative element or implication. In this way the respondent, in his or her role as an informed observer of the organizational scene, could reflect his or her perceptions of current strategic priorities without necessarily being committed to them.

* It was felt that complete sentences would reduce problems of ambiguity and differing interpretations.

The development and pilot testing of the questionnaire is considered next.

3.4.1 DEVELOPING THE "PERCEPTIONS OF STRATEGIC PRIORITIES" QUESTIONNAIRE

In deriving a list of statements about competitive strategy, strategic management texts, in addition to Porter (Johnson and Scholes 1988; Thompson and Strickland 1987) were consulted, discussions were held with colleagues both within the Strategy Group at Cranfield School of Management, and those from other groups who were familiar with the Generic Strategy concepts. (Dess and Davis 1984 used a similar approach involving "academicians selected on the basis of their experience and expertise in the field of strategic management" (Dess and Davis 1984:474))

Only "Cost Leadership" and "Differentiation" strategies were to be included. "Focus" per se is not a competitive strategy, it merely defines a narrower competitive arena. Within this arena the firm still has to consider which source of competitive advantage it is seeking (cost leadership, differentiation or a

combination of both).

From these sources a list of 41 statements was drawn up. All the statements were couched in the present tense to emphasize that the statements referred to what was happening now in the SBU rather than some vaguely understood future intentions.

This list of 41 statements was then tested with 7 colleagues who teach strategic management at Cranfield. They were asked independently to categorise each statement as follows:

"The statement applies essentially to either:

(a) a cost leadership strategy

(b) a general strategy of differentiation

(c) a specific differentiation strategy (either through innovation, or marketing effort) (based on Miller 1987)

(d) the statement could apply to either, or both generic strategies"

The responses were used to construct a draft of the questionnaire. Statements that had been unanimously categorised as clearly pertaining to one or the other of the generic strategies were included. There were 6 cost leadership statements, and 7 differentiation statements that were unanimously unambiguously categorised. To these were added 4 cost leadership statements, and 3 differentiation statements that were classified as such by 6 out of the 7 respondents, making 10 statements for each generic strategy, 20 statements in all.

Colleagues had also made suggestions about the wording of some statements, particularly ones that were slightly ambiguous, or

which might contain terminology not familiar to some managers. These suggestions were incorporated in the 20 statement version.

The same group of experts were then asked to classify this restricted set of statements. They were all unanimously classified as pertaining to either a strategy of cost leadership, or to a strategy of differentiation.

* Thus, as a result of these processes a set of statements were derived that, in the opinion of the expert panel, related unambiguously to the two Porter generic strategies.

3.4.2 PILOTING THE QUESTIONNAIRE

This 20 statement questionnaire was then pilot tested initially with a group of middle/senior managers from a large construction materials company. The aim of this test was to see whether practicing managers were able to complete the questionnaire without difficulty. In particular, were the statements meaningful and were they capable of being related to their firm?

The managers completed the questionnaire without difficulty, in my presence, but I was asked for some clarification as to the definition of the "business" to which the statements referred. This was clearly a problem for some managers. For example, do the statements refer to the quarry he manages? or do they relate to the construction materials division? or to the corporation as a whole?

As a result of this feedback the wording in the introduction to the questionnaire was amended to make it clearer that the statements refer to SBU level strategy, not corporate level strategy. The managers responses indicated a high level of positive agreement (consensus) on some statements, and also

agreement that some statements did not apply to their SBU.

No manager indicated that he had any difficulty in referring the statements to his business.

* This first pilot test, then, indicated that managers were able to understand the wording of the statements, and the statements had meaning for them.

3.4.3 INTRODUCING THE "CHANGE" STATEMENTS, AND FURTHER TESTING

The research design includes a dimension of organizational change (see Figure 1.2). In Chapter 2 possible relationships were discussed between consensus, realised strategy, and organizational change, and two hypotheses address these relationships explicitly. In addition, the "change" dimension would help the interpretation of the SBU's situation in the third part of the study (using "realised" strategies in strategy debates with SBU managers). In particular, information about perceive strategic, structural or operational changes could be used to explore the appropriateness of recent strategic actions (eg restructuring; changing business operations). If there had been operational or structural changes that were not part of a deliberate attempt to change strategy, the implications of these actions could be discussed, and debates about strategy making processes within the SBU would be enhanced.

Therefore, in order to research this dimension the perceptions of strategic priorities questionnaire was augmented with a set of statements concerned with organizational change.

To the list of 20 strategy statements were added 10 more statements referring to various aspects of organizational change. The basis for selecting and constructing the statements was Miles and Snow's (1978)

strategy typology. This conceptual framework integrates competitive strategy with organization structures and processes to derive four gestalts, or configurations. The typology has been extensively used as a basis for empirical research. By adopting some of the Miles and Snow dimensions opportunities may be presented to test their theory. Accordingly, statements were constructed around the following dimensions of organizational change:

* changes in strategic direction

* changes in business operations

* changes in products/services offered

* changes in organization structures and processes

The resultant 30 statement questionnaire was then tested with 3 groups of managers attending management development programmes at Cranfield School of Management. These managers came from a wide spread of firms, from several countries.

The three groups of managers produced 39 responses.

In order to test whether the responses from these managers corresponded to the three intended strategy dimensions (Cost Leadership, Differentiation, and Change), the responses were factor analysed, specifying a 3 factor solution. As Dess and Davis (1984) suggest "factor analysis has the ability to produce descriptive summaries of data matrices, which aid in detecting the presence of meaningful patterns among a set of variables" (Dess and Davis 1984:472). In this situation, the factor analysis was also used to reduce the number of statements in the questionnaire, in the interests of producing a parsimonious research instrument.

The rotated factors were then interpreted . The three factors

could be interpreted as "Cost Leadership/Cost reduction", "Change" and "Differentiation". There were, however, a number of statements which did not load "cleanly" on one of these three factors.

Because the intention was to produce a questionnaire that not only reflected Porter's generic strategies, but one that was also straightforward for managers to complete, it was important that the language of the statements was free of "jargon", and that the questionnaire was concise. Using the information derived from the factor analysis, and through discussions with colleagues, the 30 statement questionnaire was reduced to 21 statements.

* These processes of testing and factor analysis indicated that the statements in the questionnaire were seen by managers as relating to the two generic strategies, and to organizational change.

3.4.4 FURTHER PILOT TESTING

The 21 statement questionnaire (which now had 8 Cost Leadership/Cost Reduction orientated statements, 6 Differentiation orientated statements, and 7 change related statements) was further tested with two mixed groups of managers. In addition to testing the ease of use of the questionnaire, and whether there were any remaining problems in interpreting the instructions or the statements, the opportunity was taken to test whether the questionnaire results accorded with the respondents view of the strategy of his or her firm.

The first group of managers were asked to complete the questionnaire. Then they were introduced to Porter's generic strategy concepts via a video, and a class discussion (taking about 2 hours). They were then asked to locate their firm on a simple graph, which essentially required them to judge whether the firm was pursuing a Cost Leadership/Cost Reduction

orientated strategy, or a Differentiation strategy. They were then fed back the results of the questionnaire.

The questionnaire responses were factor analysed to produce factor scores for each manager for each of the three factors. The two competitive strategy factor scores were used to plot each respondent on a graph (see Figure 3.1).

The results from this test were as follows:

* out of 18 managers, 14 of them located their graph position as the same as the questionnaire result. eg the questionnaire result was "Cost leadership/Cost Control orientation", and they plotted their SBU accordingly on their graph

* two manager's graph positions did not correspond to the questionnaire result, although in one case the manager did not produce a strong strategy orientation in his questionnaire.

* two other managers were non-committal in their graph plots; they located their firms on the 45 degree line dividing the cost leadership/cost reduction orientation from differentiation orientation.

Thus, following an explanation of the generic strategy concepts, these managers could categorise their SBU in generic strategy terms. These classifications coincided with the questionnaire derived classifications. It could be concluded, then, from this test, that, within the constraints of the generic strategy framework, the questionnaire results generally coincided with the manager's expressed classification of his SBU.

In order to simplify the descriptive label of the Cost Leadership/Cost Reduction orientation it was summarised subsequently as an "Efficiency" orientation. This change was also made as a result of difficulties some respondents expressed with the concept of Cost Leadership. Whilst they were

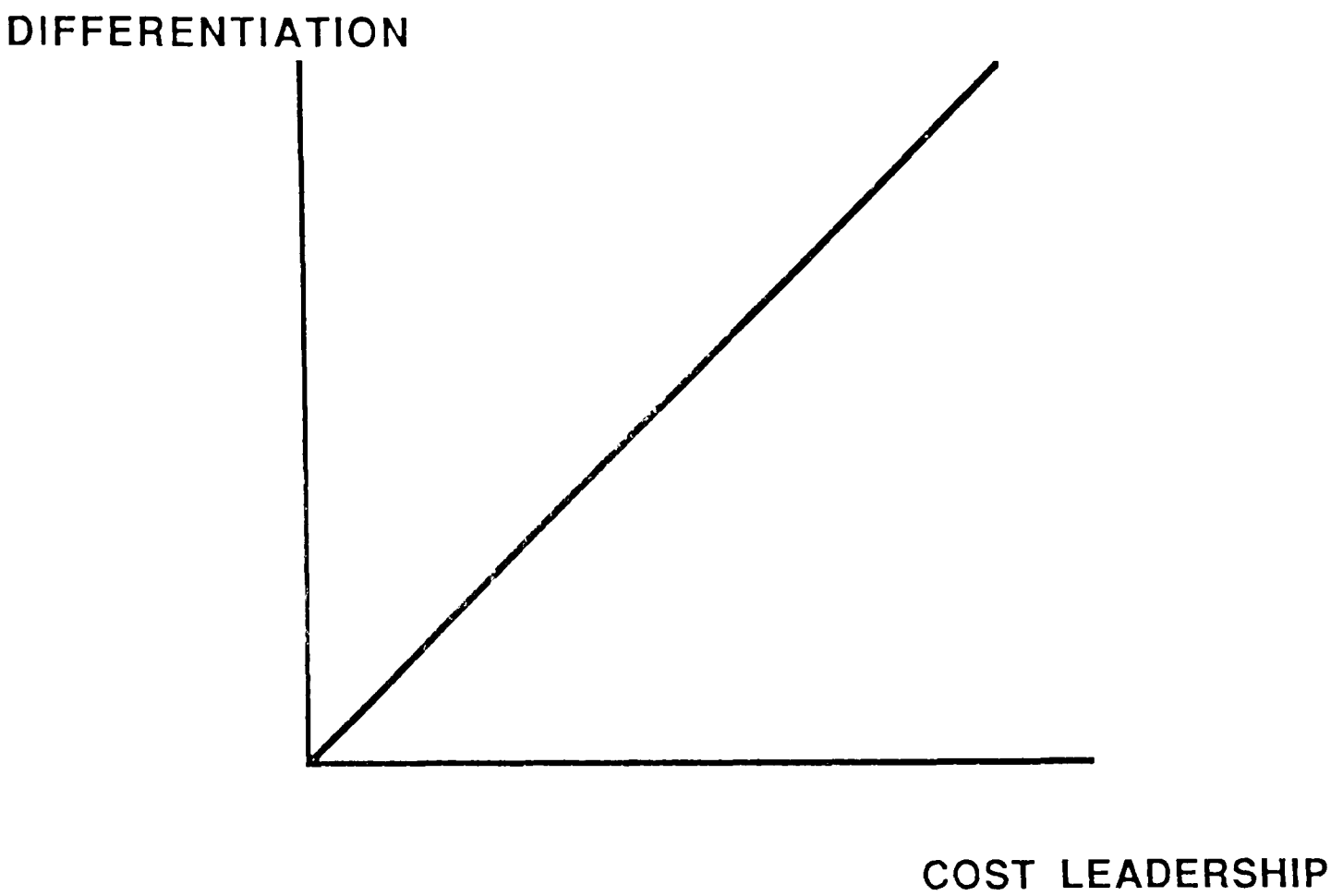

FIGURE 3.1 REPRESENTING MANAGER'S PERCEPTIONS OF STRATEGIC PRIORITIES

comfortable with a description of their SBU's strategy that emphasised cost reduction and efficiency, they were less sure about classifying their SBU as being in pursuit of cost leadership. This concern with the concept of cost leadership, and the possibility that managers may perceive this strategy differently from the Porteresque view is taken up in Chapter 5.

The next test was with a group of 26 senior managers. To overcome the problem of managers locating themselves on the 45 degree line, they were asked to classify their SBU as being in one of the four quadrants of the diagram in Figure 3.2. This diagram suggests four possible competitive strategy orientations:

* "Pure Efficiency". Here the SBU is concerned essentially with cost reduction and cost control

* "Pure Differentiation". SBUs pursuing this orientation emphasise product uniqueness and premium pricing. There is little concentration on cost reduction.

* "Hybrid". These SBUs would be pursuing Efficiency and Differentiation with equal vigour

* "Impoverished". SBUs located in this quadrant do not emphasise either of the competitive strategy orientations

The same sequence of events was undertaken in this test (complete questionnaire, video based discussion of generic strategies), then the managers were asked to locate their SBU on the grid. The results were as follows:

* 12 managers' estimates of their SBU's strategy agreed with the results of the questionnaire. In all these cases the managers had classified their SBUs as either Pure Efficiency (5), or Pure Differentiation (7)

* 8 managers who estimated their SBUs were pursuing Pure

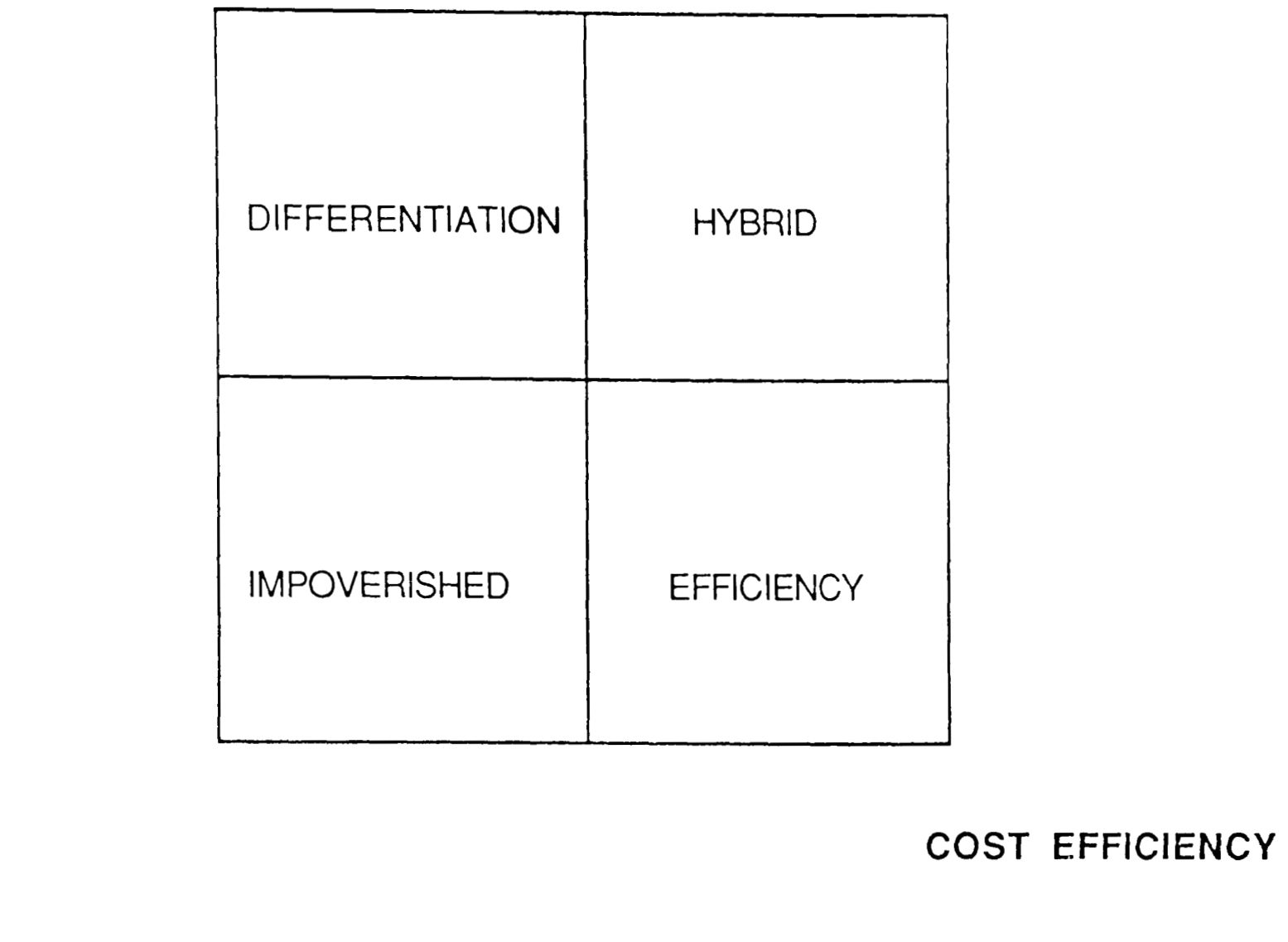

Figure 3.2 Categorising Realised Strategies

Efficiency strategies turned out as Hybrid strategies from the questionnaire.

* 5 managers estimated that their SBUs were pursuing Hybrid strategies. In all five cases the questionnaire located them in the Pure Differentiation category.

* No managers estimated that their firms were in the Impoverished category; the questionnaire produced 3 managers in this category. All 3 managers had estimated Efficiency strategies.

The results of this test indicate that where "Pure" strategies are being pursued the managers responses tend to concur with their estimates. Where Pure strategies were "wrongly" estimated, in all cases the questionnaires produced either a Hybrid location, or an Impoverished location. This would indicate that the Pure strategies are quite robust in their distinctiveness. The straying into the Hybrid/Impoverished categories indicates more the strength of the orientation to either of the Pure strategies, rather than the existence of a difference in orientation.

* The results of these two tests gave a degree of confidence in the questionnaire, and, in this revised and shortened form, it could be easily administered to large numbers of managers.

The design of the questionnaire is such that it could be applied to any organization, not just business organizations. This was demonstrated with a mixed group of public and private sector managers. The public sector managers were able to relate to the majority of statements, and because of the nature of the rating scale, they were able to indicate which statements did NOT apply to their organization, as well as those that did. However, the instrument was designed specifically for firms; a different set of strategy statements would be appropriate to many public service organizations.

To reduce problems that may arise where managers have differing interpretations of "Efficiency" and "Differentiation", in all subsequent occasions where managers were exposed to their location on the two-dimensional plot, the presentation included the series of slides in Figure 3.3. In this way, the summarising terms used were linked to specific statements, thus reducing the problems of ambiguity.

Two further planned tests, and one unplanned test of the validity of the questionnaire were conducted.

The first planned test involved the application of the questionnaire to an SBU that, a priori, we would suppose would display high consensus about its strategic priorities. The SBU selected was a small strategic management consultancy, the respondents comprised the partners from the consultancy.

Blau (1977) notes that the density of intragroup relations is an inverse function of group size, and Wilkins and Ouchi (1983) suggest that "smaller professional or functional groups or relatively small organizations will develop "thick" social understandings that are specific to the organization" (Wilkins and Ouchi 1983:472). They go on to argue that the "frequent contact on similar problems utilizing shared professional orientations is likely to reinforce a shared professional clan... Clan control that can efficiently govern uncertain and complex transactions requires the development of shared knowledge in two areas: (1) a general paradigm that helps participants determine what is in the bets interest of the collective; and (2) the perception of goal congruence (the belief in a general or long-term equity)." (Wilkins and Ouchi 1983:475)

Moreover, because of the nature of this SBU's work (offering consulting advice on strategy) it is likely that the partners have practiced what they preach, to the extent that the strategy of their business would have been explicitly discussed and developed, and that there would be not only a high degree of

EFFICIENCY

* EMPHASIZE CONTROL OF OPERATING COSTS

* CONSTANT PRESSURE TO CUT OVERHEADS

* LOW COST SUPPLIES

* TRY TO MAXIMISE UTILISATION OF CAPACITY

* AIM TO BE THE LOWEST COST PRODUCER

DIFFERENTIATION

* EMPHASIZE DISTINCTIVE PRODUCTS IN MARKETING

* REGULAR NEW PRODUCT/SERVICE DEVELOPMENT

* TRY TO OFFER UNIQUE PRODUCTS/SERVICES

* CHARGE PREMIUM PRICES

* SALES PERFORMANCE INFORMATION MORE IMPORTANT THAN COST CONTROL INFORMATION

HYBRID

* PURSUING BOTH EFFICIENCY AND DIFFERENTIATION

IMPOVERISHED

* PURSUING NEITHER EFFICIENCY OR DIFFERENTIATION

FIGURE 3.3 STATEMENTS ASSOCIATED WITH THE FOUR STRATEGY CATEGORIES

shared understanding about the strategy, there is also likely to be a high degree of commitment to it (as they all have a large stake in the SBU's success).

The application of the questionnaire to this SBU revealed a very high degree of consensus around the strategy of Differentiation. All the partners were located in the Differentiation quadrant (see Figure 3.4).

The second further planned test involved the selection of an SBU that, a priori, we would expect to display very low consensus. It proved difficult to conceptualise the antecedent conditions that would lead to such a result, but poor performance, a fragmented structure, in-fighting and low morale, a lack of direction from the TMT would all probably contribute to low consensus. Actually finding such an SBU would be difficult, and the identification of many of these dimensions would be highly subjective unless an extensive study of possible SBUs was undertaken. However, the validity of the research instrument would be enhanced if a comparitor SBU to the strategy consultancy could be found. A surrogate SBU was eventually selected on a rather different set of assumptions from those proposed above.

As the selection of an appropriate low-consensus SBU was difficult on a priori reasoning an alternative approach was selected. Two SBUs from a large multinational corporation were selected, and newly recruited graduates were asked to complete the questionnaire. The graduates had been with their SBUs for between three and four months, and they had been assigned to work within a variety of functions at fairly low levels. The combination of relative newness to the SBU, a spread of functional experiences, and being located at low levels of the hierarchy would suggest that these trainee managers would not share the same perceptions of strategic priorities. The tests on these SBUs produced a wide dispersion across all four quadrants.

The unplanned validation occurred when the results of the

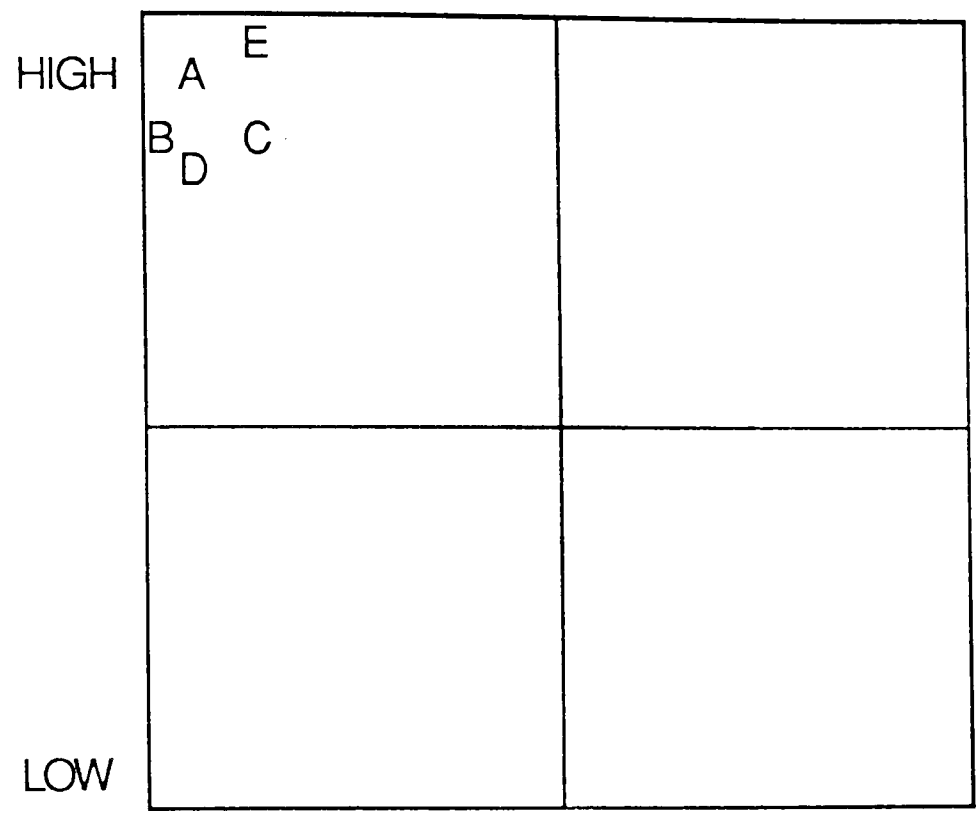

FIGURE 3.4 PERCEPTIONS OF STRATEGIC PRIORITIES: PARTNERS FROM A STRATEGY CONSULTANCY

questionnaire were being presented to the TMT of a retailing SBU. Not all the members of the TMT were present at the meeting, but they had all completed the questionnaire. Each member of the TMT was represented by a letter of the alphabet on the plot. Before each individual's position was identified on the plot, a member of the TMT remarked that "I'll bet that "G" is ....." and he named a member of the TMT. "G" was positioned clearly in the "Efficiency" quadrant. This observation was supported by other members of the TMT, and it proved to be accurate. This suggests that the questionnaire was reflecting how other managers perceived one of their colleague's perceptions of strategic priorities. This would, again, increase confidence in the ability of the questionnaire to reflect managers' perceptions of strategic. priorities.

Finally, it is worth noting that over the course of the study 1100 managers have completed the questionnaire. Through discussions with mixed groups of managers on management development programmes, and through debates where the questionnaire has been used in strategy development processes, it is clear that managers are comfortable with the questionnaire. They find it straightforward to complete, and are able to relate with some ease to the interpretation of the analysis.

The final version of the questionnaire can be found in Appendix A at the end of the thesis.

3.5 INFERRING REALISED STRATEGY FROM THE QUESTIONNAIRE RESPONSES

The managers' responses to the strategic priorities questionnaire form the basis of the approach to the classification of realised strategies. For each SBU the following procedure was adopted:

1) the individual factor scores for each respondent on each of the factors (Efficiency, Differentiation, and Change) were calculated in accordance with the following formula:

$$F_i = a_{1i}z_1 + a_{2i}z_2 + ...+ a_{ji}z_j$$

where a_{ji} is the factor score coefficient for strategic priority j (j=1,.....,21) on factor i (i=1,2,3), and z_j is the manager's scoring of strategic priority j. The rotated loadings, and factor score coefficients used in the classification of SBUs can be found in Table 3.1.

2) a mean factor score for the SBU was calculated for each of the three factors (summing all the managers' factor scores, and dividing by the number of managers). The standard deviation about this mean was also calculated

3) the SBU was classified as being in one of four categories of realised strategy as follows:

a) In order to exclude SBUs where the managers did not display consensus about either cost leadership, or differentiation, the mean factor score for each SBU was tested for significance:

Mean Factor Score > 1.0*S.D./Root(n)

where SD = the standard deviation, and n = the number of respondents from the SBU

This test takes into account the number of responses from an SBU (the more respondents, the more confidence we would have that the mean was greater than zero).

Table 3.1 ROTATED LOADINGS

Statement	Factor 1	Factor 2	Factor 3
V(1) Operating Costs	0.715	0.065	-0.066
V(13) Monitor Costs	0.639	0.085	-0.057
V(15) Price Sensitive	0.670	0.142	0.176
V(6) Low Cost Supply	0.629	-0.022	0.042
V(5) Cut Overheads	0.616	0.075	-0.141
V(21)Competitive Prices	0.588	0.030	0.018
V(19) Lowest Cost	0.545	0.071	0.033
V(11) Emphasize Prices	0.528	-0.045	0.220
V(8) Capacity Util	0.528	-0.008	0.117
V(14) Different Ops.	0.087	0.792	0.047
V(16) Changed Structure	0.102	0.727	0.090
V(20) Same Operations	-0.002	-0.725	-0.075
V(2) Changed Strategy	0.065	0.724	-0.044
V(4) Little Org. Change	-0.083	-0.596	-0.087
V(9) Unique Products	-0.066	0.011	0.716
V(7) Regular NPD	0.059	0.195	0.689
V(10) NPD Priority	0.138	0.190	0.658
V(3) Distinctive Prducts	0.167	0.012	0.633
V(18) Superior Products	0.240	0.097	0.590
V(12) No Product Change	0.142	-0.368	-0.351
V(17) Sales Inform	-0.116	-0.088	0.341
Percentage Of Variance Explained	17.1	13.49	12.18

(Table 3.1 continued)

Interpretation of Rotated Factors:

Factor 1 "Cost Leadership"
Factor 2 "Change"
Factor 3 "Differentiation"

Factor Score Coefficients

Statement	Factor 1	Factor 2	Factor 3
V(1) Operating Costs	0.207	-0.002	-0.061
V(13) Monitor Costs	0.199	0.006	-0.058
V(15) Price Sensitive	0.181	0.009	0.036
V(6) Low Cost Supply	0.182	-0.040	-0.005
V(5) Cut Overheads	0.181	0.012	-0.089
V(21) Competitive Prices	0.168	-0.017	-0.018
V(19) Lowest Cost	0.154	-0.001	-0.013
V(11) Emphasize Prices	0.146	-0.059	0.075
V(8) Capacity Utiliz	0.149	-0.036	0.029
V(14) Different Ops	-0.012	0.292	-0.049
V(16) Changed Struct	-0.007	0.263	-0.026
V(20) Same Operations	0.035	-0.268	0.028
V(2) Changed Strategy	-0.012	0.275	-0.080
V(4) Little Org. Change	0.006	-0.215	0.016
V(9) Unique Products	-0.048	-0.051	0.300
V(7) Regular NPD	-0.018	0.015	0.269
V(10) NPD Priority	0.006	0.012	0.253
V(3) Distinctve Products	0.023	-0.055	0.256
V(18) Superior Products	0.042	-0.022	0.229
V(12) No Product Change	0.071	-0.117	-0.122
V(17) Sales Inform	-0.043	-0.056	0.154

This is a similar approach to that of Boeker (1989), who uses the one standard deviation cut point as a means of categorising SBUs.

b) if the mean score on a factor (either Differentiation, or Efficiency) was positive, and significant, then the SBU was classified as pursuing this orientation.

c) if the mean score on both factors was negative, and significant, then the SBU was classified as "Impoverished". In this case the SBU demonstrates agreement that the SBU was pursuing neither strategic orientation.

d) if the mean scores for both factors were not significant, the SBU was categorised as "Unclassified".

3) Thus for each SBU five possible classifications were possible:

* **Unclassified** (mean scores on both factors not significant)

* **Impoverished** (mean scores on both Efficiency and Differentiation were negative, and significant)

* **Differentiation** (mean score on Differentiation positive, and significant; mean score on Efficiency not significant, or negative and significant)

* **Efficiency** (mean score on Efficiency positive, and significant; mean score on Differentiation not significant, or negative and significant)

* **Hybrid** (mean score for both Efficiency and Differentiation positive, and significant)

Thus each SBU could be classified exclusively into one of these groups. This permitted the testing of hypotheses about realised strategy and performance (eg do Hybrid SBUs perform best?), hypotheses about realised strategy and consensus (eg is an efficiency strategy associated with high consensus?), and realised strategy and change (eg efficiency is associated with low organizational change).

For the purposes of testing hypotheses about realised strategies and performance, the "unclassified" SBUs are grouped with the Impoverished SBUs. This group of SBUs can be regarded as pursuing neither of the two strategic orientations (Efficiency or Differentiation) with vigour. Thus, the efficacy of the strategic orientations can be tested by comparing Differentiation, or Efficiency SBUs with this combined "Unclassified/Impoverished" group.

The methods used to test the specific hypotheses developed in Chapter 2 are explained at the end of this chapter.

We now turn to the development of methodologies to explore the other dimensions of the research: consensus, performance, and change.

3.6 MEASURING CONSENSUS

The most popular method of measuring consensus or agreement is the summation of standard deviations (Dess 1987; Bourgeois 1980; Hrebiniak and Snow 1982; Priem 1989). This measure has face validity, as a standard deviation measures the "dispersion" (or differences in ratings) among the individual respondents. One problem with the measure is that it needs to subtracted from a constant number to give the numerical values a positive

relationship to other variables (like performance). (see Dess 1987:268). A second problem is that the measure is a relative one, its magnitude is determined by the rating scales being used. This makes comparison across studies of consensus difficult.

There are other problems with using mean standard deviations. One group of managers may systematically use the extremes of the rating scales, whilst a comparitor group opted for more middling scores; the mean standard deviation would fail to detect these differences. This measure also copes inadequately with positive disagreement between groups of managers (see Bowman and Miller 1990).

Other methodologies include that used by Stagner (1969). He studied 52 pairs of respondents from within the same firms for similarities in their patterns of responses on goals and means. He used correlation coefficients to measure the extent of agreement between two managers. Hambrick (1981) used "the absolute value value of the difference between the external measure of realised strategy (converted to a 7-point scale) and an executive's perception of strategy (on the same 7-point scale)" (Hambrick 1981:268). Wooldridge and Floyd (1990) use a more complex definition of consensus which incorporates "understanding" and "commitment'. Consequently, their consensus measure is a product of two other measures (Wooldridge and Floyd 1990:235).

In this study the correlation approach used by Stagner is developed to provide the measure of consensus. Consensus across all the respondents from an SBU is calculated by first computing the correlation coefficients for all pairs of managers. These coefficients are then averaged to yield an average correlation for the SBU. This measure falls within the range -1 to +1. A consensus "score" near to +1 would indicate strong agreement within the sample. Scores near to zero would suggest a lack of agreement. Negative scores would indicate positive disagreement.

The average correlation measure of consensus can also used to measure other forms of consensus:

Consensus within the TMT

Consensus between the TMT and FMT

Consensus within the FMT

These other measures of consensus can be derived from the correlation matrix produced for the overall consensus score. In the present study, however, only the overall measure of SBU consensus is used for the purpose of testing hypotheses.

This measure of consensus has the advantages of face validity, and it can be readily interpreted by those familiar with the concepts of correlation. It also provides a standardised measure of consensus which could be used in other studies, even where different rating scales are employed. Hence it facilitates the comparison of research findings.

3.7 MEASURING PERFORMANCE

Two important issues need to be considered in the selection of appropriate measures of SBU performance. The first concerns what should be measured, the second how performance should be measured.

Citing Hofer and Schendel (1978), Dess and Origer (1987) argue that

"measures of organizational performance should include indicators of efficiency (eg profitability) and effectiveness (eg

sales growth), since both are needed in strategic management research" (Dess and Origer 1987:328). Boeker suggests that sales may be a better indicator of performance than profits especially where firms are pursuing a market share building strategy. Dess and Davis (1984) used sales growth and average after tax returns on total assets.

Bourgeois (1980) derives a composite measure of "economic performance as the criterion of effectiveness" (Bourgeois 1980:235) which included return on invested capital, growth in capital, growth in net earnings, growth in earnings per share, and return on sales.

With regard to how to measure performance there are basically two options: using"objective" data, or using "subjective" data. Objective data would appear to offer advantages in terms of reliability. However, these measures are necessarily historical, and they may not be strictly comparable between SBUs (different accounting procedures, year ends etc).

Moreover, profitability, being a marginal calculation (revenue less costs) is likely to fluctuate considerably with only small changes in either revenues or costs. As such it may prove to be a poor indicator of SBU performance. Boeker (1989) suggests that sales growth may be a better indicator of performance than profits especially where firms are pursuing a market share building strategy.

Similarly, relying on published accounts for sales performance may be unhelpful as these sources do not include performance in terms of market share. Hence sales could show a steady increase, but market share may be falling, indicating that the SBU is being less effective in serving its target market. This again, then, raises the issue of the impact of industry structure on firm performance. Beard and Dess (1981) provide evidence that the profitability of the industry within which a firm competes is a significant predictor of firm profitability. This

finding is supported conceptually by Porter (1980).

Lastly, in order to use objective measures the researcher needs access to accounting data for each SBU. Increasingly, however, SBU level data is becoming difficult to obtain, largely due to the acquisitive behaviour of a large number of corporations. The concentration of capital has made research into SBU performance problematic. In addition to the trend towards conglomerate acquisition, many SBUs are private companies who are not obliged to publish detailed accounts.

Market share data is also difficult to acquire. Such information is collected in a patchy fashion, with some industries (most notably those serving the final consumer) being well served with market share data, and others in which no such information is collected on a routine basis. In order to calculate shares one must have a definition of the boundaries of an industry. This again provides an opportunity for differing perceptions of industry definition between researchers and managers.

These problems with objective measures of performance, and problems resulting from the impact of industry structure on firm performance have led researchers into the exploration of subjective measures of SBU performance. Govindarajan reports a study in which SBU general managers were asked to rate their SBU's performance relative to "corporate standards" (Govindarajan 1988:851). Bourgeois (1980) required managers to compare their SBU's performance relative to that of competitors. Dess (1987) reports that "all TMT members were asked to respond to three items. these items asked the respondent to compare his firm to "firms of similar sales volume in your industry and region". Miller (1988) asked CEOs to compare profitability of their firms to that of their major competitors.

In some of these studies there was an attempt to validate the subjective, or "self-reported" performance measures by

comparing them statistically with objective measures. In all cases where this was done the researchers report significant positive relationships (Dess 1987; Bourgeois 1980; Dess and Robinson 1984; Wooldridge and Floyd 1990). However, if managers were asked to report performance relative to competitors, then it makes little sense to compare these ratings with past absolute SBU performance.

In this study subjective measures of performance are used. The main reason for adopting this approach is the need to compare CURRENT perceptions of strategy with CURRENT performance. Historic accounting data (even if it were available) refers to a strategic situation at least one year prior to the surveying of managers perceptions of strategic priorities. If growth in sales and profits were the relevant measures of performance, then we would need to look to performance three or four years ago for this information, widening the gap between the managers' current perceptions and past performance. Therefore, in order to compare like with like it is necessary to find a measure of the current performance of the SBU.

The performance measure also needs to take into account the industry environment facing the SBU. For these reasons, a subjective measure of performance was obtained which rates the SBUs relative performance in terms of sales growth, and profitability.

To reduce the possibility of CEO bias in reporting, all members of the TMT are asked to rate their SBU's performance. These ratings are then averaged to produce one measure for each SBU of relative sales growth, and relative profitability. The respondents are given no guidance on which competitors they should be comparing their SBU with, and there is a possibility that different TMT managers within the same SBU will be using different reference points. However, because the sample is drawn from a variety of industries, by asking the TMT to rate the RELATIVE performance of their SBU, the impact of industry

context on performance is taken into account.

Because the classification of the SBU's realised strategy is based on a sample of ALL the managers from the SBU (not just the Top Management Team), the possibility of a systematic bias between the rating of the SBU's performance, and the classification of SBU strategies is greatly reduced. Moreover, the performance statements are contained on a separate questionnaire, to further reduce the risk of TMT managers scoring the strategy statements and the performance statements in a systematically biased manner. The performance of the SBU is rated by a few managers (just the Top Management Team); the classification of the SBU into a strategy type is based on a much larger sample of managers in each case.

In line with previous similar studies that have used subjective measures, the subjective measures were compared with objective data for a sample of firms from the regional newspaper industry. By selecting firms from the same industry the effects of industry conditions could, to some extent, be controlled for. However, this is a fragmented industry, and local competitive conditions are likely to vary. By selecting firms from broadly the same industry we are able to compare profitability ratios, as individual SBUs are likely to have the same underlying cost and revenue structures.

Objective and subjective performance data was available for eleven regional newspaper SBUs. Each SBU was asked to provide the most recent available information on profits, and sales. From this information an objective profitability ratio was calculated (pre-tax profits/turnover). This ratio was compared with the TMT's mean subjective profitability rating. The results of the regression analysis indicate a significant, positive relationship between the two measures ($R^2 = 0.627$; $p = 0.004$). This result would suggest that the subjective measures could be used with some confidence as indicators of SBU performance.

For the purposes of testing performance related hypotheses the sales and profit measures are treated, firstly, as continuous variables in the regression equations (eg testing the relationship between sales growth and consensus). Some prior studies have categorised SBUs into, for example, above average, or below average performers (Miller 1988). Boeker (1989) classifies good and poor performers in his sample by selecting firms that lie beyond one standard deviation from the mean. Bourgeois (1980) employs a similar classification device. By grouping firms in this way hypotheses can be tested by comparing the means across groups of high and low performers. This grouping approach is also employed in this study to test hypotheses about realised strategy and performance.

3.8 MEASURING CHANGE

Change in the SBU was measured using the change statements in the questionnaire. These statements are concerned with four dimensions of organization change:

* changes in structure and processes
* changes in strategic direction
* changes in business operations
* changes in products

These dimensions correspond with the Miles and Snow (1978) typology:

* structure and processes = the administrative problem
* strategic direction, and product changes = the

entrepreneurial problem

* business operations = the engineering problem

This permits subsequent analyses of this data base to explore the Miles and Snow typology, particularly to test out whether the SBUs in this sample cluster into the Miles and Snow categories of Defender, Analyser, Reactor, and Prospector. This opportunity for further research will be explored in Chapter 7.

The change statements, some referring to little change, others to considerable change, loaded cleanly on the "Change" factor. The mean factor scores were used to test hypotheses using regression analysis. In this way hypotheses about consensus and change could be tested.

3.9 HYPOTHESIS TESTING

In previous studies of this nature two basic approaches to hypothesis testing have been used. ANOVA has been used to test differences between two groups (eg high and low performance; high and low consensus) (Bourgeois 1980). The other approach uses correlation or regression analysis to test the significance, and the direction of relationships between variables. (Miller 1988; Dess 1987).

In this study both of these approaches are used in testing hypotheses. However, because of the exploratory nature of the research design, it was not possible to specify a priori the number of SBUs that would be classified as Differentiators, Hybrid, Cost Leaders or Impoverished. This restricted the use of conventional tests of significance because of small sample sizes.

In order to conduct statistical tests, a sample size of greater

than 30 SBUs was identified as the minimum acceptable (Terpstra 1981). Three levels of significance will be used in the tests: p=0.1, p=0.05 and p=.001.

The specific tests to be used for each hypothesis are explained below.

H1 Cost leadership will not be a commonly perceived competitive strategy

A statement has been included in the questionnaire that refers specifically to Porter's cost leadership strategy. It is:

"We aim to be the lowest cost producer in our industry"

To test this hypothesis the mean score on this statement (for all the respondents in the database) will be compared to the mean scores for all other strategy related statements in the questionnaire. If the mean for the cost leadership statement is significantly lower than the mean scores for all other strategy statements then the hypothesis should not be rejected.

H2: The hybrid strategy will not be a commonly perceived strategy.

Porter suggests that few firms would be able to pursue cost leadership and differentiation simultaneously. If the realised strategies of the sample of SBUs were distributed evenly between the four types (Impoverished, Efficiency (Cost Leadership), Differentiation, Hybrid) we would expect 25% of them to be in the hybrid category. This would imply that the Hybrid strategy was as common as, for example, a differentiation strategy. To test this hypothesis, if the percentage of Hybrid SBUs is significantly below 25% (at the 95% level), then the hypothesis should not be rejected. With 38

SBUs in the sample, this means that the percentage would have to be below 11.2%.

H3: Firms perceived to be pursuing cost leadership will be above average performers in their industries.

This hypothesis tests the Porter argument that cost leadership leads to above average performance. Because the performance measures used require managers to rate their SBUs against other firms in their industry it is possible to test performance related hypotheses across firms in different industries. In this way the efficacy of particular realised strategies can be tested and compared. Porter argues that the cost leader would outperform, in profit terms, firms that were average performers, firms that are pursuing neither cost leadership nor differentiation. Hence, this hypothesis can be tested by comparing the mean profit performance of the cost leadership SBUs with the Impoverished SBUs (those SBUs in which the managers do not perceive a strategy of cost leadership or differentiation being pursued). If the mean score for the cost leadership SBUs is statistically significantly greater than that for the Impoverished SBUs then the hypothesis should not be rejected. However, because there may be too few SBUs in either category for statistical testing, the hypothesis may be commented on by just comparing mean scores.

H4: Firms perceived to be pursuing differentiation strategies will be above average performers in their industries

This hypothesis can be tested in the same way as H3. In this case the Differentiation SBUs mean profit performance is compared with the Impoverished group's mean profit performance. Again, if sample sizes are too small, non-statistical inferences can be drawn from comparing the means, but the hypothesis cannot be rejected or accepted on a statistical basis.

H5: Firms perceived to be pursuing neither cost leadership nor differentiation will be average or below average performers in their industries

This hypothesis is based on Porter's average performers, those SBUs that are "stuck-in-the-middle" (Porter 1980:41). To test this hypothesis the mean profit performance for the Impoverished SBUs is compared with the mean score for the SBUs that are pursuing either Efficiency (Cost Leadership), Differentiation, or Hybrid strategies. If the mean score for the Impoverished SBUs is significantly lower than that for the SBUs pursuing either of the generic strategies (or both) then the hypothesis should not be rejected.

H6: Firms perceived to be pursuing hybrid strategies will be exceptional performers in their industries

To test this hypothesis the mean profit performance for the Hybrid SBUs is compared with the mean scores for other SBUs groups (Impoverished, Efficiency, and Differentiation groups). The hypothesis should not be rejected if the Hybrid group perform significantly better than all of the other three groups. Again, if there are problems with sample sizes a less rigorous comparison of means may be appropriate.

H7: Firms perceived to be pursuing cost leadership strategies will experience low organizational change

This hypothesis will be tested by comparing the mean score for the cost leadership SBUs on the "Change" factor, with the mean score for all other SBUs. If the cost leadership SBU group's mean is significantly lower than the mean for all other SBUs then the hypothesis should not be rejected. Again, in the event of there being a small sample of cost leadership SBUs a non-statistical comparison of means will be used.

H8: Consensus on strategic priorities is positively related to SBU performance

Consensus is measured using the average correlation method explained above. SBU performance in terms of relative profitability, and relative sales, is regressed against the consensus measure. The hypothesis should not be rejected if the regressions reveal positive, significant relationships.

H9: Consensus on strategic priorities is negatively related to organizational change

To test this hypothesis the mean scores for each SBU on the "Change" factor are regressed with the consensus measure. The hypothesis should not be rejected if the relationship is negative, and significant.

H10: Where managers perceive their SBUs to be pursuing a strategy of cost leadership there will be a high degree of consensus about all dimensions of strategy

To test this hypothesis the mean consensus score for the cost leadership SBUs is compared with the mean consensus score for all other SBUs. If the cost leadership SBUs mean is significantly higher than that for the other SBUs, then the hypothesis should not be rejected. Again, in the event of there being a small sample of cost leadership SBUs a non-statistical comparison of means would be acceptable.

H11: Managers perceive of competitive strategy in line with Porter's Generic Strategy concepts.

As explained earlier, because the research design is based on Porter's typology this hypothesis should be tested using a different methodology. The exploration of this hypothesis forms the basis of Chapter 5, and the approach used is explained there.

3.10 SUMMARY

This chapter has addressed the following methodological issues:

* questionnaire design, and pilot testing
* the classification of SBU realised strategies
* the measurement of SBU performance
* the measurement of consensus
* the measurement of change
* hypothesis testing

The methodologies explained and developed in this chapter can now be used to test the hypotheses. The testing of the hypotheses and the interpretation of the results is the subject of Chapter 4.

CHAPTER 4

PRESENTATION AND ANALYSIS OF THE RESULTS

4.1 INTRODUCTION

In this chapter the hypotheses developed in Chapter 2 are tested using the methodology explained in Chapter 3. As each hypotheses is tested the implications of the results are discussed. At the end of the chapter general conclusions are presented concerning the broad findings of the research. These conclusions then form a bridge between the hypotheses based essentially on arguments derived from academic contributions (the basis of Chapter 2 and 3), and the outcomes of the research, that may shed some light on managerial perspectives of competitive strategy. These possibilities are explored in Chapter 5.

First, the two main databases used in the study are explained.

4.2 THE "SBU DATABASE"

As explained in Chapter 3 it was not possible to determine, a priori, the sample sizes of the four different realised competitive strategy groups. In total, 38 SBUs have been included in the "SBU database". The SBUs are classified, according to the criteria explained in Chapter 3, into the four realised strategy categories, and the "Unclassified" category, as follows:

Unclassified	11 SBUs
Impoverished	4 SBUs
Efficiency (Cost Leadership)	13 SBUs
Differentiation	6 SBUs
Hybrid	4 SBUs
TOTAL	38 SBUs

The SBUs were sampled from three industry groupings:

Services	15 SBUs
Engineering	13 SBUs
Regional Newspapers	10 SBUs
TOTAL	38 SBUs

Within the services and engineering groupings the intention was to gather a varied sample of SBUs. In this way the generalizability of the research would be enhanced. Accordingly, the database includes SBUs of differing size (turnover, number of employees), and business activity.

The SBUs range in turnover from £541,000 to over £1billion, and the number of employees ranges from 10 to over 14,000.

Turnover: mean £15.308m, standard deviation £15.920m

Employees: mean 1148; standard deviation 3326

Due mainly to problems of confidentiality, turnover and, particularly, profit information could not be collected for some SBUs in the sample. For those SBUs for which information was obtained the descriptive statistics are: Profit (pre-tax): mean £17.372m, standard deviation £59.969m

Changes in turnover from the last year's figures to the current year for those SBUs for which data was available (17) ranged from a drop of 11% to an increase of 300%. Out of these 17 SBUs, 12 reported increases in turnover over the previous year.

With regard to pre-tax profits changes over the previous year ranged from a 38% drop in profits to an increase of 3750% (which reflects the volatility of gross profit as a performance measure).

Pre-tax profit as a percentage of turnover varied from a loss representing 6% of turnover, to a profit representing 71% of turnover. (the mean was 19.1%; standard deviation 16.9%).

Change in pre-tax profit/turnover ranges from a fall of 37% from the previous year, to an increase of 1250%. The mean change was 205%, standard deviation 309%, but these statistics are distorted by a huge change in performance experienced by a young, rapidly expanding SBU.

These descriptive statistics suggest that the sample of SBUs from within the three industry groupings is diverse. Therefore, if hypothesised relationships are supported across this mixed sample we can conclude, with some confidence, that the findings could be generalized to other SBUs.

The number of managers surveyed in the SBUs ranged from 5 to 63, with a mean of 15.8 and a standard deviation of 12.1. This range reflects, firstly, the differences in size of the SBUs surveyed. The 5 respondents from one SBU represented the entire

management team of the business. Secondly, in some surveys the TMT wished to have a large number of managers surveyed in order that the results could be used for internal strategy development purposes.

The SBU database includes, for each SBU:

* the mean factor scores, and standard deviation (required for classifying the realised strategy, and for testing hypotheses about organizational change)

* a consensus measure (using the average correlation measure)

* measures of relative profit performance and relative sales performance

4.3 THE "MANAGER DATABASE"

The 38 SBUs surveyed generated 600 questionnaires. These 600 were combined with questionnaire responses from 509 other managers to form the "manager database". The 509 responses were collected from managers from a wide variety of SBUs, representing many levels of their organization's hierarchies. In this way the total "manager database" of 1109 reflects the perceptions of a very large and diverse sample of managers.

The management database, when factor analysed specifying the three factor solution produces three "clean" factors that correspond to the two generic strategies (Cost leadership and differentiation) and to organizational change (See Table 4.1). (As explained in Chapter 3, the factor score coefficients from this database are used to derive the factor scores for each respondent. These responses are then averaged to produce mean factor scores for each SBU.)

Table 4.1 ROTATED LOADINGS

Statement	Factor 1 (Cost)	Factor 2 (Change)	Factor 3 (Differentiation)
V(1) Operating Costs	0.715	0.065	-0.066
V(13) Monitor Costs	0.639	0.085	-0.057
V(15) Price Sensitive	0.670	0.142	0.176
V(6) Low Cost Supply	0.629	-0.022	0.042
V(5) Cut Overheads	0.616	0.075	-0.141
V(21)Competitive Prices	0.588	0.030	0.018
V(19) Lowest Cost	0.545	0.071	0.033
V(11) Emphasize Prices	0.528	-0.045	0.220
V(8) Capacity Util	0.528	-0.008	0.117
V(14) Different Ops.	0.087	0.792	0.047
V(16) Changed Structure	0.102	0.727	0.090
V(20) Same Operations	-0.002	-0.725	-0.075
V(2) Changed Strategy	0.065	0.724	-0.044
V(4) Little Org. Change	-0.083	-0.596	-0.087
V(9) Unique Products	-0.066	0.011	0.716
V(7) Regular NPD	0.059	0.195	0.689
V(10) NPD Priority	0.138	0.190	0.658
V(3) Distinctive Prducts	0.167	0.012	0.633
V(18) Superior Products	0.240	0.097	0.590
V(12) No Product Change	0.142	-0.368	-0.351
V(17) Sales Inform	-0.116	-0.088	0.341
Percentage Of Variance Explained	17.1	13.49	12.18

4.4 HYPOTHESES CONCERNED WITH COMPETITIVE STRATEGY

In this section hypotheses 1 to 6 are tested and explored.

H1: Cost Leadership will not be a commonly perceived competitive strategy

Statement 19 "We aim to be the lowest cost producer in our industry" forms the basis for testing this hypothesis. The 1109 managers in the manager database produced a mean rating for this statement of 2.479 (Standard deviation 1.339). This is the lowest mean score of all the strategy-related statements and it is significantly lower than all the other mean statement ratings (at the p=0.01 level). Thus the hypothesis cannot be rejected.

This result would suggest that cost leadership, per se, is not perceived to be strategic priority by the majority of managers in the survey. The mean score for Statement 19 can be contrasted with the mean score for Statement 1 ("We place considerable emphasis on the control of operating costs"):

Statement 19 (Lowest cost) Mean 2.479

Statement 11 (Operating costs) Mean 4.121

The difference between the two means is considerable (and statistically significant), and raises some important issues. Porter (and others who have interpreted the generic strategy concepts) would strongly link the control of operating costs with a drive to be the lowest cost producer in the industry. Indeed, it is difficult to see how an SBU could achieve cost leadership without tight control of operating costs. However, the large difference between these two means suggests that most managers in the survey see the control of operating costs as a strategic priority in their SBU, but this is not linked, in their perceptions, with an aim to be the cost leader in the industry.

There are a number of possible reasons why Statement 19 has been rated so low by the majority of managers. First, and most obviously, by definition, only one firm can be the lowest cost producer in an industry. Secondly, the rationale behind Porter's Cost Leadership strategy is that only THE lowest cost producer in an industry can successfully achieve the benefits of superior profitability. He cites the experience curve, and battles for market share conducting through price cutting as reasons why only the lowest cost player will gain advantage (Porter 1980: 37-38). The commitment of organizational resources required by this strategy, and the risks associated with it, might suggest that it would not be a popular competitive strategy.

A third explanation might be that managers do not see the cost leadership strategy as being one that can be easily operationalised. In order to drive an SBU to achieve the lowest costs in the industry, management would need to have a clear view of their industry (ie who their competitors are), and they would need to have a good idea about the cost levels of these competitors. Without this information the drive to cost leadership becomes merely a drive to control costs. In this way, managers may perceive cost control as a strong priority, without it being linked to a goal of cost leadership.

A fourth possibility stems from a confusion that some managers may have between "lowest cost" and "lowest price". It is possible that, despite the extensive efforts to test the questionnaire explained in Chapter 3, managers are misinterpreting Statement 19. The questionnaire uses "costs" and "competitive prices" separately in eight of the preceeding statements in the questionnaire. So, by the time the manager reaches Statement 19 he or she should be familiar with the distinctions being made between costs, and prices. Furthermore, it is not likely that, given the very wide sample of managers in the manager database, they would all systematically misinterpret this one statement.

However, in order to investigate the possibility that the cost

leadership statement was being misinterpreted, discussions were held with managers from a variety of SBUs (a total of 34 managers). The majority of them interpreted the statement as intended. However, 11 of the managers interpreted the statement to mean lowest PRICE producer (ie lowest cost to the customer). This finding would suggest that the statement is ambiguous, and therefore, that great care must be taken in drawing inferences from these results.

This confusion of cost leadership with lowest price is not confined to the managers in this survey. Porter himself uses firms to exemplify cost leadership that are, in fact, competing on price (eg Hyundai in the "auto industry": European Management Journal 1987). Moreover, price cutting is a recognised part of a strategy to achieve cost leadership (Porter refers to "aggressive pricing" :1980: 36). Miller (1988) connects cost leadership and low prices to satisfy price sensitive customers, McNamee and McHugh (1989) refer to "low price" strategies rather than cost leadership, and Karnani (1984) infers that, for cost leadership to be attained the firm must compete on price.

This indication that there may be a strong, identifiable cost control orientation is explored in more depth below and in the following chapter. However, there would appear to be a contradiction between the results from the analysis of the manager database (on which H1 was tested), and the strategy classifications used in the SBU database. As noted above, 13 of the 38 SBUs are classified as pursuing "Cost Leadership" strategies. This apparently contradictory finding is explored in the discussion of H3 below.

H2: The hybrid strategy will not be a commonly perceived strategy

Using the classification criteria explained in Chapter 3, 4 of the 38 SBUs are perceived to be pursuing the Hybrid strategy. Thus

10.5% of the sample are perceived to be pursuing the combined Differentiation and "Cost Leadership" strategy. This proportion is significantly below 25% (at the 95% level). Thus the hypothesis cannot be rejected.

Porter's argument for suggesting that the Hybrid combination would not be commonly found rests largely on the different organizational requirements of the two generic strategies (Porter 1980, 1985; Miller 1988). The connections between competitive strategy and structure, and the concept of coherent "gestalts", or "configurations" is also supported by other research (Miles and Snow 1978; Miller, Droge and Toulouse 1988; Miller and Friesen 1984; Mintzberg 1979). There is a strong theme in the strategic management literature, based on the concept of "fit" or matching between strategy and structure (Chandler 1962; Channon 1973; Rumelt 1974), that would also support the contention that the pursuit of differentiation and cost leadership simultaneously would be difficult, which may lead to a compromise organizational form that serves neither orientation effectively.

Miller (1988) makes the useful distinction between marketing differentiation, and innovative differentiation. It was suggested in Chapter 2 that marketing differentiation may not require the kind of decentralized, organic structure appropriate to a strategy of innovative differentiation; that the basis of differentiation maybe image or brand related, or it could be to do with channels of distribution, or customer service. None of these bases of differentiation would be necessarily incompatible with an organization structure appropriate to a strategy of cost leadership, or to a strong cost control orientation. Hence, it may be that the few SBUs in the sample that are pursuing Hybrid strategies are not seeking to differentiate through product/service innovation. This possible explanation of the result of H2 is explored further in Chapter 5.

H3: Firms perceived to be pursuing cost leadership will be above average performers in their industry

To test this hypothesis the mean profit performance of the cost leadership SBUs is compared with the mean performance of the "Unclassified/Impoverished" SBUs (see Table 4 .2). The mean profit performance of the Cost leadership SBUs is higher than that of the "Unclassified/Impoverished" SBUs (p=0.042). The mean sales performance of the cost leadership SBUs is also greater than that for the "Unclassified/Impoverished" group (p=0.077). Thus the hypothesis cannot be rejected.

Again, as with the interpretation of H2, the results of H1 indicate that a degree of caution should be used in interpreting results associated with "Cost Leadership" SBUs. The questionnaire was based upon, and was designed to explore inter alia, Porter's Generic Strategy concepts. However, the results of H1 show that, in general, managers do not tend to perceive their SBUs to be pursuing a strategy of cost leadership.

The question that now arises is: do the "Cost Leadership" SBUs rate Statement 19 ("We aim to be the lowest cost producer in our industry") highly ? The mean rating for the "Cost Leadership" SBUs on Statement 19 is 2.663 (SD 0.462). This is only marginally higher than the mean for the manager database as a whole (2.479). This would suggest that this group of SBUs should be properly referred to as "Cost Control" SBUs rather than Cost Leadership SBUs, as they nevertheless rate cost control statements very highly. This finding confirms the view that cost leadership is not a widely perceived strategy, and it reinforces the suggestion made in the discussion of H1 that managers perceive "Cost Control" as a coherent strategy.

So now the hypotheses established to test the Cost Leadership strategy now must be reinterpreted. Hence, H3 indicates that a strategy of cost control leads to superior profit performance. The relationship between cost control and performance is explored further in Chapter 5.

Table 4.2 Comparing Performance of "Cost Leadership" SBUs with "Impoverished/Unclassified" SBUs

Profitability

Group	No.	Mean	SD	T	DF	P	
Impoverished/ Unclassified	15	2.922	1.179	2.127	28	0.042	**
Efficiency	15	3.816	1.123				

Sales

Impoverished/ Unclassified	15	2.983	0.971	1.835	28	0.077	*
Efficiency	15	3.591	0.841				

H4: Firms perceived to be pursuing differentiation strategies will be above average performers in their industries

This hypothesis can be tested in the same way as H3. The comparison of the mean profit performance of the Differentiation SBUs and the "Unclassified/Impoverished" SBUs can be found in Table 4.3. The mean profit performance for the Differentiation SBUs (3.948) is greater than that for the Impoverished/Unclassified SBUs (2.922). The difference between the means is significant (p=0.051). The Differentiation SBUs also perform better than the "Unclassified/Impoverished" SBUs in terms of sales (p=0.090). Thus the hypothesis cannot be rejected.

The Statements that the Differentiation SBU managers have rated highly include the following:

Statement 9: "We try to offer unique products/services enabling us to charge premium prices"

Statement 7: "We regularly develop new products/services, or significantly change the line of products/services we offer"

Statement 10: "We give new product/service development top priority"

Statement 3: "We emphasise our distinctive products or image in our marketing communications"

Statement 18: "We aim to offer superior products/services to those of our competitors"

Thus the Differentiation factor embraces Miller's innovative differentiation (Statements 7 and 10), and his marketing differentiation (Statement 3). It also includes, via Statement 9, a specific reference to premium pricing. Porter emphasises that, in order for a strategy of Differentiation to lead to above

Table 4.3 Comparing Performance of Differentiation SBus with "Impoverished/Unclassified" SBUs

Profitability

Group	No.	Mean	SD	T	DF	P
Impoverished/ Unclassified	15	2.922	1.179	2.064	22	0.051 *
Differentiation	9	3.948	1.178			

Sales

Impoverished/ Unclassified	15	2.983	0.971	1.771	22	0.090 *
Differentiation	9	3.692	0.913			

average profitability, the firm must be able to premium price (and to combine this with "average costs"). Therefore, the differentiation factor is broadly framed, and it is in line with Porter's intentions.

However, because of the broad conception of this strategy it is not possible to identify, from the factor scores for each SBU, whether, for example, a strategy of innovative differentiation leads to better performance than one of marketing differentiation. This is because the classification of SBUs has been done on the basis of mean factor scores (which aggregate and weight the individual differentiation-related statements). The disaggregation of "Differentiation" as a strategy is addressed in Chapter 5.

H5: Firms perceived to be pursuing neither cost leadership nor differentiation will be average, or below average performers in their industries

To test this Hypothesis the Impoverished/Unclassified SBU group's performance is compared to all the other SBUs (who are positively pursuing either cost leadership (cost control), or differentiation, or both (Hybrid SBUs)). The mean profit performance of the Impoverished SBUs is compared with that of the other SBUs in Table 4.4.

The difference between the means is considerable (2.922 vs 3.731) and significant ($p=0.046$). In addition, the Impoverished/Unclassified SBUs perform poorly in terms of relative sales ($p = 0.067$). Thus the hypothesis cannot be rejected.

This result supports the view that SBUs should have a positive, shared sense of direction. The result of H5 can be interpreted as support for advocates of "intended" or deliberate strategy.

Table 4.4 Comparing Performance of Impoverished/Unclassified with Other SBUs

Profitability

Group	No.	Mean	SD	T	DF	P
Impoverished/ Unclassified	15	2.922	1.179	2.075	34	0.046 *
Other	21	3.731	1.135			

Sales

Impoverished/ Unclassified	15	2.983	0.971	1.889	34	0.067 *
Other	21	3.576	0.899			

The result can also be explained through the organizational processes that might have led to managers not perceiving a coherent set of strategic priorities to be extant in their SBU. This could be the result of poor communication across the SBU, and up or down the hierarchy. This lack of communication could lead to problems in identifying, and meeting customer requirements, and to organizational inefficiencies that increase relative costs. In these ways the lack of a shared sense of strategic direction could be a symptom of a more general organizational malaise.

Another, process-related, explanation of the connection between managers perceiving few strategic priorities and poor performance concerns management morale. Without a sense of direction managers may well experience frustration, aimlessness, and feelings of insecurity. Without strongly perceived priorities management decision making becomes more difficult, and, as a consequence, some managers may feel that their authority has become undermined. These effects of a lack of strongly perceived priorities are, again, likely to lead to low morale, and probably to poor organizational performance as the morale problems cascade down the structure (Slatter:1984; Grinyer, Mayes and McKiernan 1988)

Unlike the Unclassified SBUs, SBUs that are categorised as Impoverished do not demonstrate low consensus. On the contrary, there is consensus, or agreement amongst the managers that few of the strategic priority statements apply to their SBU. This could be because the statements themselves are not applicable to the SBU. If this were the case, then the SBU should not be classified as Impoverished: there may well be a set of strategic priorities perceived to be being pursued by the managers of the SBU, but these are not encompassed by the questionnaire. This is a possible explanation, but not a likely one. The statements in the questionnaire have been thoroughly tested on a wide variety of SBUs. In no case did managers indicate that the statements

could not apply to their SBU. Thus, when a manager rates a statement low it should not be interpreted that the statement could not be relevant to the SBU. It indicates that the manager does not perceive the statement to be a current strategic priority. Therefore, it is not likely that the managers in an Impoverished SBU do perceive a set of strategic priorities that lie outside the range of options encompassed by the statements in the questionnaire.

H6: Firms perceived to be pursuing hybrid strategies will be exceptional performers in their industries

Managers from Hybrid SBUs perceive that their businesses combine both cost leadership, and differentiation strategies. Only four of the 38 SBUs fall into this category, and performance data was not available for one of these SBUs. Nevertheless, the three SBUs for which performance data was available perform significantly better than all other SBUs in the sample with respect to relative profitability (Table 4.5; $p = 0.032$).

Hybrid SBUs should achieve well above average performance through the combination of premium prices and lowest costs. Hybrid SBUs should not only outperform the "stuck-in-the-middle" SBUs, they should also perform better than those SBUs pursuing either cost leadership, or differentiation as single strategies.

Using the reinterpreted "Hybrid" strategy discussed in H2 above (redefining "cost leadership" as a cost control orientation), this result suggests that the combination of differentiation with cost control is relatively successful. These results suggest that managers from Hybrid SBUs perceive that both differentiation and cost control priorities can be pursued simultaneously, and that this combination can lead to good performance. This might contradict the theories of "fit", or configuration discussed earlier. This result would indicate that the pursuit of cost

Table 4.5 Comparing Profitability of Hybrid SBUs with Other SBUs

Group	No.	Mean	SD	T	DF	P	
Hybrid	3	4.807	0.172	2.236	34	0.032	**
Other	33	3.265	1.177				

control and differentiation need not place demands on the organizational structures and processes that would lead to poor performance. It suggests that the integration of these two broad strategic thrusts can be achieved, and it can be successful.

4.5 HYPOTHESES ABOUT CHANGE AND CONSENSUS

H7: Firms perceived to be pursuing cost leadership strategies will experience low organizational change

To test this hypothesis the "organizational change" statements are used. These statements are combined into the "change" factor, and for each SBU a mean change factor score has been calculated. High factor scores indicate that managers perceive that their SBUs have experienced a high degree of change recently. The dimensions of change included are: changes in strategic direction, changes in operations, and changes in structures and processes.

The mean score for the "Cost Leadership" SBUs on the "Change" factor is **above** the mean score for all SBUs (0.189 compared to 0.008), but the difference is not significant ($p = 0.298$), hence H7 should be rejected (see Table 4.6).

In order to explore the relationships between perceive strategy and change further it is necessary to go back to the disaggregated data (prior to the factor analysis).

In Table 4.7 the mean scores for each of the five change statements (Statements 2, 4, 14, 16, 20) for the cost control SBUs are compared with those for all the other SBUs.

Only one of the differences between means is significant, Statement 4: "Our organisation, and the way things get done

Table 4.6 Cost Leadership/Cost Control SBUs Compared To Other SBUs on the "Change" Factor

Factor 2 ("Change")

Group	No.	Mean	SD	T	DF	P
Cost Control	17	0.189	0.421	1.056	36	0.298
Other	21	0.008	0.600			

Table 4.7 Cost Control SBUs: "Change"Statements

	V2 (Strategic Direction)	V4 (Little Org. Change)	V14 (Change in Operations)	V16 (New Structure and Processes)	V20 (Same Operations)
Cost	3.515	2.278	3.749	3.687	2.122
Other	3.445	2.593	3.671	3.427	2.241
PROB	0.747	0.041**	0.691	0.196	0.450

within it, have changed little in recent times". The cost control SBUs have scored this statement lower than all other SBUs.This would suggest that cost control SBUs have experienced more change within the organization, possibly as a result of attempts to cut costs.

Extending this analysis to the other SBU categories reveals some further interesting results (Table 4.8). In contrast to the Cost Control SBUs, the Impoverished/Unclassified SBUs have scored Statement 4 significantly higher than the other SBUs. This would indicate that, in SBUs that lack a clear perception of strategic direction, the modus operandi has not been changed. This could be because without a shared sense of direction there is little incentive or impetus to change, nor is their any widely understood framework to guide organizational change.

The Differentiation SBUs scored Statement 14 significantly lower than other SBUs ("Currently, we are trying to operate this business in significantly different ways to those we have in the past"). This would suggest that the Differentiation SBUs have experienced a degree of stability in the way they operate their businesses. This could be because, in order to achieve differentiation, an SBU needs to decide on its route to achieve product differentiation, and to stick with it. A degree of stability enables the organization to refine and improve its ways of delivering valued products/services to its customers. Hybrid SBUs also score Statement 14 significantly lower than other SBUs.

The results of Hypotheses 4 and 6 indicated that SBUs pursuing Differentiation strategies, and SBUs pursuing Hybrid strategies performed better than those pursuing neither of these orientations. As both SBU groups also score Statement 14 lower than other SBUs, it might suggest a relationship between stability and performance.

To investigate this further, the mean scores for all SBUs on

Table 4.8 Change Statements by SBU Categories

SBU Category mean statement ratings; "Other SBU" means in brackets

Statement	Impov/Uncl	Cost Control	Differentiation	Hybrid
V(2) Change Strategic Direction				2.859 (3.549) p=0.046
V(4) Little Organization Change	2.703 (2.288) p=0.007		2.278 (2.593) p=0.041	
V(14) Different Business Operations			3.376 (3.824) p=0.036	3.221 (3.763) p=0.08

Statement 14 were regressed with relative profitability. The relationship was negative, and significant ($p = 0.053$): the higher the SBU rating on Statement 14, the lower the profit performance. This finding would support the view that some degree of stability in business operations is desirable. Porter argues that firms that "flip back and forth over time among the generic strategies" will perform poorly (Porter 1980:42). This result would seem to support this contention.

It could also indicate that poor profitability has prompted management to change business operations. The first response to deteriorating performance could be to "tighten the nuts", to cut operating costs, for example (Grinyer and Spender 1979), rather than to try to change strategic direction.

H8: Consensus on strategic priorities is positively related to SBU performance

To test this hypothesis, consensus within an SBU, measured by the "average correlation" method explained in Chapter 3, is regressed with the two performance measures, relative profitability, and relative sales growth. The results of these regressions can be found in Table 4.9.

Neither of the relationships is significant. Because the consensus measure used differs from the standard deviation measure used by other researchers (Dess 1987; Bourgeois 1980), H8 is also tested using aggregate standard deviations as the consensus measure.

The standard deviation measure is derived from the factor scores of the individual managers. For each SBU the standard deviations for all managers about the mean factor score (for the SBU) are summed. Then the sum of standard deviations for each factor are added together to give a "total standard deviation" measure for the SBU ("Total SD"). If this "Total SD" measure is

Table 4.9 Consensus and Performance

Average Correlation Method

Consensus and Profitability

N	R	R^2	Std Error	Std Coeff	P (2 Tail)
36	0.164	0.027	1.208	0.164	0.340

Consensus and Sales

36	0.171	0.029	0.962	0.171	0.319

Total Standard Deviation Method

Consensus and Profitability

36	0.003	0.00	1.224	-.003	0.986

Consensus and Sales

36	0.146	.021	0.966	0.146	0.395

high, this would indicate a lack of consensus; a low figure indicates agreement among the managers.

The results of these tests can be found in Table 4.9. Again, none of the relationships are statistically significant.

The arguments underpinning this hypothesis are centred upon the advantages accruing to the SBU if all the managers perceived the same strategic priorities. The unity of direction that would result should work through to superior performance. However, the evidence presented here does not support this contention. Agreement, or consensus, in general does not lead to good performance. However, agreement about particular strategies is positively associated with performance, as the results of the earlier hypotheses indicate (H3, H4, H5, H6)

So, consensus per se is not enough; managers need to agree about positive strategies (either cost control or differentiation, or both). Managers within an SBU may agree that their SBU is not pursuing any positive strategy, so there may be a high degree of consensus that the SBU is moribund (eg. the "Impoverished" SBUs).

To explore this further, the "Impoverished/Unclassified" grouping of SBUs was disaggregated to isolate those SBUs where consensus about a lack of strategic priorities obtained (the "Impoverished" SBUs). Four SBUs fell into this category. Comparing the profit performance of this group with all other SBUs reveals a mean rating for the Impoverished SBUs significantly lower than that for the rest (Impoverished: 2.458; Others: 3.511; $p = 0.10$).

When the "Impoverished" SBUs are excluded, (along with four "outliers" that belong to the "Unclassified" group of SBUs) a positive and significant relationship exists between consensus and sales performance ($R^2 = 0.225$; $p = 0.012$). This would support

the view that consensus is related to performance, but only if there is consensus about a positive strategy (either cost control, differentiation or both).

However, despite this qualified support for H8 these results do not provide overwhelming evidence for the benefits of consensus. There are arguments that can be advanced in support of both a positive and a negative relationship between consensus and performance (see Chapter 2). These results would suggest that there may be important variables that moderate the consensus-performance relationship, and that there may be particular situational factors in which consensus reduces performance. Thus further research into the consensus-performance link is required that explores these issues.

H9: Consensus on strategic priorities is negatively related to organizational change

To test this hypothesis the consensus ratings for each SBU were regressed against the SBU mean Change factor scores. The results of this regression indicate that the hypothesis should be rejected. (R^2=0.029; p= 0.307; std coeff: 0.170). There are plausible explanations for this relationship to be positive, and for it to be negative (see Chapter 2). However, this result indicates no significant relationship.

To explore this result the links between consensus and the mean scores for each of the statements which together make up the "change" factor can be investigated.

Table 4.10 presents the results of regressions of consensus against the five change statements. Statement 4 is negatively related to consensus, and is statistically significant (p=0.015). This suggests that where managers perceive little change in the organisation there is low consensus. This finding could be linked to the argument introduced in the discussion of H 7 above. Where managers perceive there to be either little sense of strategic

Table 4.10 Consensus and the Change Statements

Change Statement	R^2	P	Std Coeff
V(2) New Strategic Dirct	0.00	0.960	0.008
V(4) No Organizat. Change	0.155	0.015 **	-0.393
V(14) Change in Operations	0.004	0.705	-0.064
V(16) New Structures	0.002	0.769	0.049
V(20) Same Operations	0.099	0.055 *	-0.314

direction, or there is a lack of agreement about strategic direction (the "Impoverished" and "Unclassified" SBUs respectively), there is little encouragement to change the organization.

One other relationship is significant, consensus and Statement 20 "We try to operate this business in much the same way today as we have in the past" ($p = 0.055$). In line with the relationship with Statement 4, this is negative. Thus, these two findings suggest that low perceived change in the running of the business is associated with low consensus.

SBUs that experience little change in the day-to-day running of the business may well exhibit low consensus as the strategic direction of the business has not recently been explicitly addressed (Hambrick 1981). There could be a high degree of "taken for grantedness" in the organization, with strategy change rarely appearing on the agenda. In these circumstances low awareness of strategic priorities would lead through to a lack of shared understanding of where the business is heading.

H10: Where managers perceive their SBUs to be pursuing a strategy of cost leadership there will be a high degree of consensus about all dimensions of competitive strategy

Comparing the mean consensus rating for the Cost Control SBUs with that for all other SBUs reveals no significant difference between them. Thus the hypothesis should be rejected.

The arguments supporting this hypothesis centred upon the essentially stable nature of organizations pursuing low cost strategies. The investment in capital equipment, and in developing efficient routines and procedures requires a high degree of stability to obtain in the organization's environment to

justify these commitments. This external stability is matched by internal structures and processes that lead to organizational stability. These stabilising influences are likely to lead to a high degree of shared understanding about the strategic priorities of the SBU. This tendency to consensus should be reinforced by the straightforward nature of the cost control strategy. It is one which is easily understood, there are well tried routines and disciplines associated with its implementation, and it lends itself to measurement and control.

However, this result suggests that SBUs in which managers perceive their organization to be pursuing cost control priorities, do not display a higher level of shared understanding about strategic priorities. This could be explained by the results of H7. This hypothesis, which related cost leadership strategies with organizational change, was rejected as the cost orientated SBUs had a higher than average perception of change. When the individual change statements were examined, the cost orientated SBUs had above average means for the strategic change statement, and the structure and process change statement.

Perceived changes in strategic direction, and changes in organizational structures and processes, would indicate that the SBU is experiencing a period of instability. This period of instability may be characterised by a lack of strategic direction. This may represent a state of flux, or a transitional stage between the old strategy, and a new, as yet unclear, strategic direction. Hence, the change dimension moderates the links between cost leadership and consensus; although the SBU managers share an understanding of cost control priorities (otherwise they would not be categorised as "Cost Control/Cost leadership" SBUs), there is no consensus about other strategic priorities.

These results would suggest that there is a difference between a deliberate strategy of Cost Leadership, and a realised strategy that is

strongly orientated towards cost control priorities. Whilst the former strategy requires close attention to cost control activities, these priorities form part of a clearly articulated, coherent strategy to become the lowest cost producer in the industry. In this case, there should be consensus not only about what the SBU IS doing (cost control), but there should also be shared understanding about what the SBU is NOT doing (innovation, differentiation).

The SBUs that have been classified as having "cost control" realised strategies would include the "deliberate" cost leaders, and SBUs who are pursuing cost control priorities, but not as part of an overall cost leadership strategy. This latter group would include SBUs who stress cost control priorities as short term responses to declining performance. In these cases it is unlikely that a high degree of consensus would obtain around priorities that are not to do with cost control.

4.6 SUMMARY

H1: Cost Leadership will not be a commonly perceived competitive strategy

The hypothesis cannot be rejected, but it is possible that some managers have misinterpreted the "Cost Leadership" statement.

H2: The hybrid strategy will not be a commonly perceived strategy

The hypothesis cannot be rejected.

H3: Firms perceived to be pursuing cost leadership will

be above average performers in their industry

The hypothesis cannot be rejected.

H4: Firms perceived to be pursuing differentiation strategies will be above average performers in their industries

The hypothesis cannot be rejected.

H5: Firms perceived to be pursuing neither cost leadership nor differentiation will be average, or below average performers in their industries

The hypothesis cannot be rejected.

H6: Firms perceived to be pursuing hybrid strategies will be exceptional performers in their industries

The hypothesis cannot be rejected.

H7: Firms perceived to be pursuing cost leadership strategies will experience low organizational change

The hypothesis should be rejected.

H8: Consensus on strategic priorities is positively related to SBU performance

This hypothesis should be rejected.

H9: Consensus on strategic priorities is negatively related to organizational change

The hypothesis should be rejected.

H10: Where managers perceive their SBUs to be pursuing a strategy of cost leadership there will be a high degree of consensus about all dimensions of competitive strategy

The hypothesis should be rejected.

Thus, the results concerning competitive strategies and performance appear to confirm the theory-based relationships presented in Chapter 2. Generally, SBUs with a positive strategic direction (whether it be towards cost control, or differentiation, or a combination of the two) outperform those without it. However, the hypotheses concerned with consensus and change were not supported. In particular, predicted relationships between consensus and performance, "Cost Leadership" strategies and consensus, and change were not supported.

In the next chapter we explore the assumptions about competitive strategy that underpin the hypotheses tested above. In particular, the assumption that managers perceive competitive strategies in line with Porter's Generic Strategies is examined using the "manager database".

CHAPTER FIVE

REALISED STRATEGIES AND GENERIC STRATEGIES

5.1 INTRODUCTION

The chapter begins with a critical appraisal of Porter's Generic Strategy concepts. This appraisal includes a review of the attempts to test out these concepts empirically. This opening section concludes with a summary of the main issues raised by the discussion.

Then the "manager database" is revisited to explore whether managers perceive the strategies of their SBUs in Porter terms. Here the constraints of grouping the statements into two generic strategy factors (required for the analysis in Chapter 4) are relaxed. The underlying structure of the "manager database" reveals four, not two strategic thrusts. These thrusts are then interpreted, and the performance implications for SBUs pursuing these thrusts are explored.

The final part of the chapter outlines a "managerial" theory of competitive strategy derived from the analysis of the database. Three propositions that emerge from this managerial theory are set out, and tested.

5.2 ASSESSING THE GENERIC STRATEGY CONCEPTS: CONTRIBUTIONS FROM THE LITERATURE

Although Porter's generic strategy concepts underpin the construction of the Perceptions of Strategic Priorities questionnaire, one of the aims of the research was to evaluate the generic strategies in the light of managerial perceptions.

To recap, Porter (1980;1985) suggests that there are three "Generic Strategies": Cost Leadership, Differentiation and Focus. The Focus strategy requires the firm to apply one or other (or both) of the other strategies to a narrow segment of the market, to gain advantage. Firms that do not pursue these strategies, or who flip unsuccessfully between them, run the risk of being "stuck-in-the-middle" and performing at or below the industry average.

Taken together empirical investigations into the generic strategies have been inconclusive (Dess and Davis 1982,1984; Hambrick 1983a, 1983b; Miller and Friesen 1986a, 1986b; Phillips, Chang and Buzzell 1983; White 1986). But some of the problems in researching these concepts result from the inconsistent way in which the strategies are interpreted.

5.2.1. COST LEADERSHIP

With respect to Porter's Cost Leadership strategy, it is evident from the literature that there are very important differences in the way in which researchers have interpreted this competitive strategy.

Porter argues that, for cost leadership to yield superior profits, the firm must combine lowest costs with average prices. However, successful cost leaders that he chooses to exemplify

his theory could be regarded as competing on price (eg Hyundai: European Management Journal 1987; La Quinta: Harvard 1988; and Harnischfeger: Porter 1980:37). Or, by coincidence, the examples could merely be selected from price sensitive segments.

If this was the case, then Hyundai would be charging average prices for this particular segment (which might include Proton and Lada as direct competitors). The question would then be: are Hyundai the lowest cost of the car producers serving this segment? It is not clear from Porter's use of this example that this is the inference he is making. In the context of his exposition, he is arguing that Hyundai is a low **price** car producer, who is targeting a price sensitive segment of the market.

The means to achieving the lowest cost position (eg a "conveyorized assembly line", Porter 1980:37) often require a high degree of stability, and standardization in the product or service being offered. Again, these may well be requirements of particular segments who find a "standard, no frills product" acceptable (Porter 1985:13). Skivington and Daft (1991) suggest that:

"Low cost strategic decisions are often found in markets where commodity-like products and price sensitive buyers collectively pressure firms to engage in price competition" (Skivington and Daft 1991:50)

And Miller (1988) makes a strong connection between the cost leadership strategy and low prices to satisfy price sensitive customers:

"User's of the [cost leadership] strategy are likely to confront the least environmental unpredictability and change. They seek out customers who care more about price than about image or novelty.." (Miller 1988:284-5)

If the low cost position is translated into, say, lower prices, then the firm should increase its market share, but it may well not improve the firm's relative profitability. For now, the cost leader is no longer charging average prices, and, therefore there is no guarantee that its low cost position would lead to above average profits.

The connection between cost leadership, serving price sensitive customers and competing on price is made in a number of studies into the generic strategy concepts. In Dess and Davis' (1984) study statements associated with the three generic strategies (cost leadership, differentiation and focus) were tested with two different groups: managers and "experts" in strategic management. The experts were required to read Porter (1980: Chapter 2) and then to rate a list of 21 statements of "competitive methods" according to its importance for each generic strategy. The experts rated "Competitive Pricing" as being strongly associated with cost leadership (a mean rating of 4.86, with 5 as the maximum).

McNamee and McHugh's (1989) attempt to test out Porter's concepts in the clothing industry refers to "low price" strategies rather than cost leadership. Karnani (1984) infers that, for cost leadership to be attained the firm must compete on price. And Govindarajan (1986), citing Porter (1985), maintains that:

> "a strategy of low cost signifies an attempt to sell an essentially undifferentiated product at lower-than-average market price." (Govindarajan 1986:848)

Throughout Govindarajan's article he refers to Porter's "low cost" strategy. This illustrates a lack of precision in the interpretation of Porter that contributes to the confusion surrounding the generic strategy concepts.

In Miller and Friesen's empirical investigation of the generic strategies (1986a: 1986b) they refer to cost leaders offering

lower prices, and pricing "aggressively" to build market share. This study also illustrates some other difficulties of definition encountered in researching the generic strategies. They list a number of "strategic choice variables" extracted from the PIMS database, that they believe are associated with the generic strategies. For cost leadership these variables are as follows:

* Price Difference

* Vertical integration

* Newness of plant and equipment

* Capacity utilization

* Relative direct costs

* Process R&D/Value added

None of these variables, taken singly or in combination would necessarily lead to an SBU becoming a "cost leader" in its industry. Nevertheless, this does not prevent Miller and Friesen (1986a) from drawing conclusions about "cost leadership" SBUs, or indeed identifying "Differentiators" that are also "cost leaders"(Miller and Friesen 1986a:49). These interpretations are all the more surprising given that their study found a number of "cost leaders" within the same industry (consumer durables). In a similar vein, Dess and Davis (1984) are prepared to conclude that a cluster of four firms in the same industry are "cost leaders".

These are not trivial points. They illustrate a lack of rigour that seems to be endemic to empirical studies of the generic strategies. It would be more appropriate if Miller and Friesen referred to SBUs that score highly on these variables as "cost control" SBUs, as there is no evidence that they have achieved THE lowest cost position in their industries, or that they were striving to achieve this position.

To conclude, there appears to be some confusion surrounding the strategy of cost leadership. It is not clear whether cost leadership is necessarily associated with competing on price, and there is evidence that some investigators are using the term loosely to imply a "cost control" orientation. Finally, a strong connection is made in the literature (by Porter and others) between cost leadership and serving price sensitive, commodity-like market segments. Thus the choice of generic competitive strategy is being confused with the selection of a target market segment.

5.2.2 DIFFERENTIATION

Similarly to cost leadership, Differentiation has been variously interpreted. Porter argues that differentiators achieve superior profits through their ability to premium price (1980:38). He states that:

"The ultimate test of differentiation is: do you command a premium price?" (European Management Journal 1987:6)

However, Hill (1988) suggests that an aim of differentiation is "to capture more of the market at the same price"; Hill does not, then, automatically associate differentiation with premium pricing.

Porter himself relaxes the connection between a differentiation strategy and premium pricing in his video case examples (Harvard 1988). Citing American Airlines as his example of a broad scope differentiator, he suggests that their superior performance results not from the ability to premium price, but from their ability to increase market share.

Hill (1988) considers the connections between differentiation and demand:

"Investment expenditure aimed at differentiating a product has two effects upon demand. The first is to create brand loyalty, decreasing the price elasticity of demand for the firm's product. The second is to broaden the appeal of a product, enabling the firm to capture more of the market at a given price and to increase the volume sold.... The immediate effect of differentiation will be to increase unit costs. However, if costs fall with increasing volume, the long-run effect may be to reduce unit costs. Three sources of declining costs can be identified: learning effects, economies of scale, and economies of scope....Whether differentiation is consistent with establishing an overall low-cost position depends on the extent to which costs decline with increasing volume." (Hill 1988:402/3)

Thus, for Hill differentiation need not necessarily be associated with premium pricing (see also Bamberger 1989:80), nor does he perceive particular problems in pursuing both differentiation and cost leadership simultaneously.

He goes on to argue that "..efficiency is not so much a strategy as a function of the skill with which a firm manages the process of converting inputs into outputs." (1988:410). This leads us into the next contentious area: whether firms that try to achieve both sources of advantage run the risk of being "stuck-in-the-middle".

5.2.3 "STUCK-IN-THE-MIDDLE"

Porter maintains that:

"a firm that engages in each generic strategy but fails to achieve any of them is "stuck in the middle". It possesses no competitive advantage.....Becoming stuck in the middle is often a manifestation of a firm's unwillingness to make choices about how to compete. It tries for competitive advantage through every

means and achieves none, because achieving different types of competitive advantage usually requires inconsistent actions" (Porter 1985:16-17)

In addressing the issue of achieving both sources of advantage Murray (1988) argues that:

"...the exogenous preconditions for a viable cost leadership strategy stem principally from the industry's structural characteristics [vertical integration confers benefits, process innovations can still be realised, learning effects can still be realised, optimal scale exceeds 50% of market]. The preconditions for product differentiation stem primarily from customer tastes. Because these two sets of exogenous factors are independent, the possibility of a firm pursuing cost leadership and product differentiation simultaneously is not precluded." (Murray 1988:395)

Karnani (1984) argues that "a firm cannot afford to emphasise one dimension at the cost of neglecting the other. Moreover, the relative contribution to successful performance of the two ways of gaining competitive advantage depends on certain characteristics of the specific industry one is considering" (1984:379)

Cronshaw, Davis and Kay (1990) point out some of the differing interpretations of the "stuck-in-the-middle" concept. It has been used, as in the discussion above, to refer to not making a choice between the two generic strategies. It has, however, also been used (by Porter and others) to refer to market positioning (opting for a "middle market" position), and to a general lack of clarity in strategy.

The link between industry, or segment situation and the choice of generic strategy explored by Murray (1988) is shared by Hambrick (1983a):

"It is simply not accurate to say that all generic strategies are equally viable within an industry....any broadly 'generic' strategy is really a composite of numerous variations, not all of which are equally suited to a given situation." (Hambrick 1983a:702)

Porter's (1985) concepts of "parity" and "proximity" are relevant to this discussion:

"a cost leader must achieve parity or proximity in the bases of differentiation relative to its competitors to be an above average performer.." (Porter 1985:13), and "a differentiator ....aims at cost parity or proximity relative to its competitors..." (Porter 1985:14)

Murray (1988) concludes from this that:

"This implies that a cost leader that competes against a product differentiator must also be a product differentiator, and vice versa." (Murray 1988:396)

5.3 ACHIEVING COMPETITIVE ADVANTAGE

Perhaps the most important question that must be asked of the generic strategies is "do they lead to competitive advantage?" Related to this basic question is the (usually implied) assumption that competitive advantage leads through to superior profitability. We shall now explore these two issues.

In Porter's "Competitive Advantage" (1985) the axes of his Three Generic Strategies diagram are labelled "Competitive Advantage" and "Competitive Scope" (see Figure 5.1). It is reasonable, then, to ask whether these generic strategies do in fact lead to competitive advantage.

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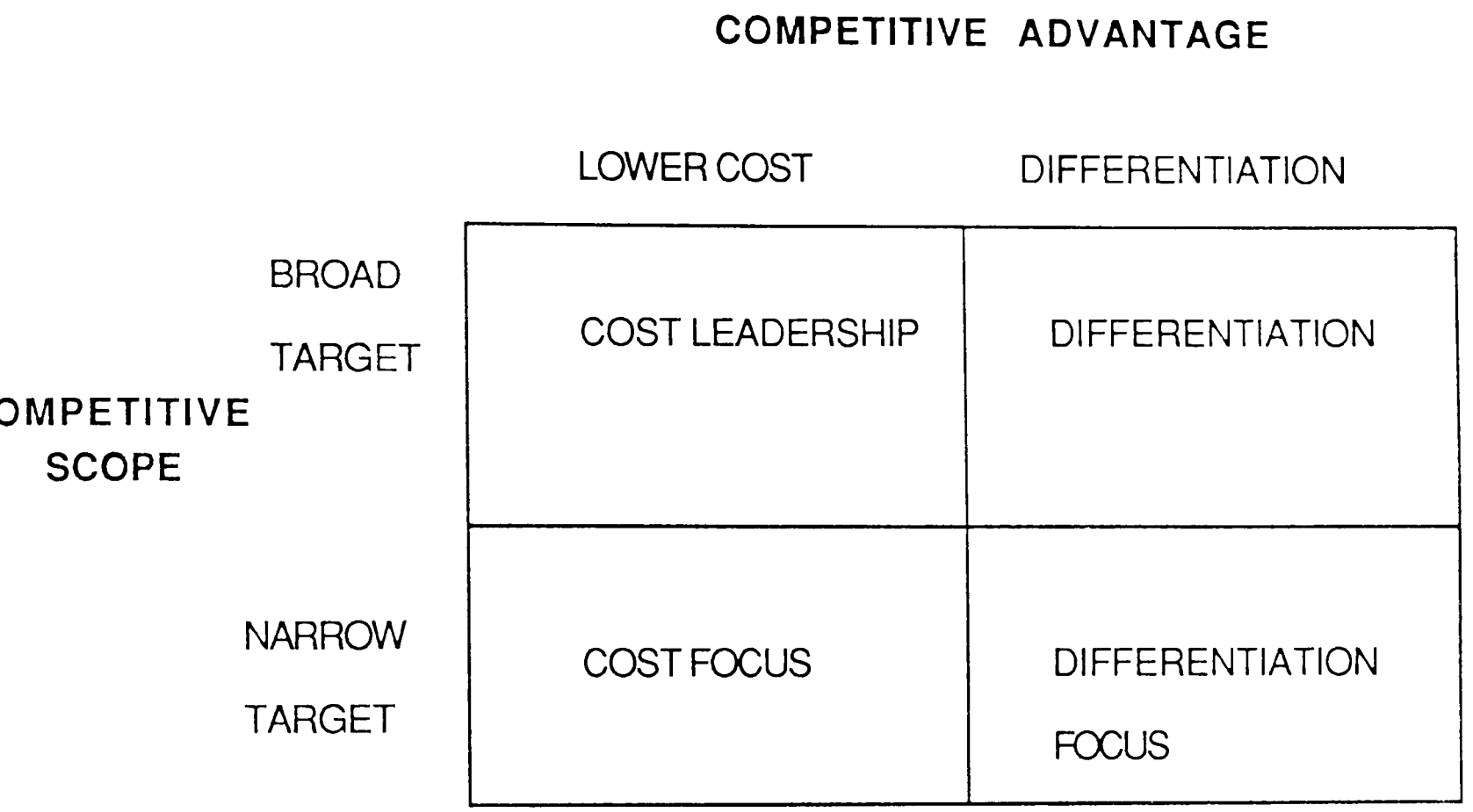


FIGURE 5.1 PORTER'S THREE GENERIC STRATEGIES (1985:12)

Mathur (1988) suggests that "competitive strategy is primarily concerned with the positioning of the firm's outputs (or offerings), not of inputs" (Mathur 1988:30). As far as the customer is concerned the cost leadership strategy is invisible; the cost leader may offer average quality products at average prices, there is no discernible advantage accruing to the customer from purchasing from the cost leader. In this sense, then, it is difficult to see how cost leadership, by itself, can convey any competitive advantage.

However, the **consequences** of being the lowest cost producer could enable the firm to pursue competitive advantages:

* Low cost enables the firm to compete with lower prices

* Low cost enables the firm to offer superior quality for the same (industry average) price

But, cost leadership per se does not confer a competitive advantage.

Does differentiation confer competitive advantage? Central to Porter's theoretical schema is the concept of the "industry". Indeed, the generic strategies are derived, and their advantages are explained in the context of a discernible industry structure (Porter 1980). However, there are problems in defining the boundaries of an industry.

For instance, Murray (1988) cites Southlands 7-11 stores as exemplifying product differentiation based on convenience,

"but this is only when they are compared with food retailers targeting other market segments (eg supermarkets). When they are compared with other firms competing in their own niche (ie other convenience stores), it becomes clear that 7-11 stores strive for cost leadership." (Murray 1988: 391).

So, as more than one firm in an industry can pursue differentiation, we may see several firms, all serving similar customers, all "premium pricing". But how does a firm achieve superior performance if all its rivals are "premium pricing" to the same extent? Indeed, over whom are these firms charging premium prices?

Problems of industry definition and segmentation occur frequently in discussions of the generic strategy concepts. The definition of the industry (ie who are the firm's competitors) is clearly a key issue.

Day and Wensley (1988) distinguish between customer-focussed and competitor-centred approaches to competitive position. They conclude that:

> "The appropriate unit of analysis to reveal [competitive] advantage is a market segment characterized by a distinct profile of benefits" (Day and Wensley 1988:16).

Dickson and Ginter (1987) define market segmentation as a

> "state of demand heterogeneity such that the total market demand can be disaggregated into segments with distinct demand functions" (Dickson and Ginter 1987:5).

This problem has been acknowledged by Porter and others with the development of the the Strategic Groups concept (Porter 1985; McGee and Thomas 1986; Mascarenhas and Aaker 1989). Although, developing Day and Wensley's (1988) point, arranging firms into "strategic groups" may be neither a customer-focussed, nor a competitor-centred approach; the grouping could be imposed on an industry by an interested academic.

In an article based on a transcript of a TV programme (European Management Journal 1987) Porter explains the generic strategies with reference to the "auto" industry. He uses examples from the

industry to illustrate each of the four cells of the generic strategy diagram (Figure 5.1). For the broad target cost leader he cites Toyota; for the broad target differentiator he suggests General Motors in the US; his narrow target cost focusser is Hyundai; Mercedes and BMW represent Differentiation focussers. (Interestingly in "Competitive Strategy" (1980:43) he cites General Motors as an example of a cost leader).

Clearly, Porter is using a broad definition of the auto industry to make his points, but this example illustrates very well the problems with the generic strategy concept. Over whom have Mercedes (the successful focusssed differentiators) gained a competitive advantage? It obviously is not, say Hyundai, or even Toyota, as it would be difficult to argue that these firms were targetting the same customers as Mercedes. In this sense, it is not particularly useful to regard Mercedes and Hyundai as being in the same "industry", if an industry is defined as firms in competition with each other; they would clearly not belong to the same "strategic group".

To see whether Mercedes have gained a competitive advantage we would need to take the consumer's perspective, and compare the consumer's perceptions of the alternatives that are available. It is very likely that the consumer would be comparing Mercedes with similarly priced cars, with similar specifications (eg Jaguar, BMW). To judge Mercedes competitive position we would need to know whether an increasing, or decreasing number of consumers in this target segment were buying Mercedes cars.

So Porter's test of the successful differentiation strategy (whether the firm can command a premium price: European Management Journal 1987) may not apply when the "industry" is defined from the customer's perspective, rather than from the firm's.

To take this argument further, if we take the view that the customer is interested not in the product or service per se, but

the extent to which the product can satisfy his or her needs, then quite different industry definitions emerge. Take, for example, the Isle of Wight Zoo. A product/service based industry definition would pitch the zoo against all other zoos in the UK. A customer needs-based definition would have to start from an understanding of the needs of the existing and potential customers of the zoo.

For some segments the zoo would indeed be perceived to be in competition with other mainland zoos (the keen student of animal behaviour); but for most customers the competing suppliers of their needs would include theme parks, a waxwork museum, a craft centre. Here the needs of the customers are to pleasantly pass an afternoon when it is too cold to go to the beach. Taking these customer based definitions of the industry can result in radically different perceptions of the competition, and they also require a rethinking of the "Substitute" threat in Porter's Structural Analysis of Industries (Porter 1980).

To conclude this section, the confusion between competitive strategy and the targetting of different market segments is well exemplified in a discussion between Porter and David Sainsbury (European Management Journal 1987). It is worth examining in detail the exchanges between Porter and Sainsbury as they illustrate some of the difficulties with the generic strategy concepts.

Sainsbury: "The.. bit I don't agree with is the idea that if you are stuck in the middle, that's some great disadvantage, because it seems to me that you do have customers who are only interested in price. At the other end, you've got some people who are interested only in quality and will pay anything to get it. But the great majority of people are interested in both quality and price, which is summed up in the phrase "value for money". I think you can have a strategy which is focused, as we are, absolutely on that middle range."

Porter: "David said we're not interested in the part of the market that's only price sensitive. That part of the market is the province of cost. This would be typified by a company that was adopting a very stripped-down, warehouse operation, orienting on prices and sales. That's a focus strategy. David also said he was not interested in the sort of premium which I might pay if anything was the most exotic, individual, stylish, etc.

Sainsbury: "We're not a delicatessen."

Porter: "You're not a delicatessen. But what about the differentiation approach that would go after that completely price insensitive customer, giving him all kinds of service and handholding?"

Here Porter is arguing that serving the very price sensitive segment is the province of a cost focusser, and serving the price insensitive consumer is the province of the differentiator. But it is not at all clear that the selection of either segment to target necessarily confers any competitive advantage. It would be entirely consistent with Porter's theory (Porter 1980) for a firm to pursue a cost leadership strategy in either of these segments. With respect to the price-insensitive segment, this would involve selling at average prices for firms serving that segment, but having the lowest costs (of firms serving that segment).

Similarly, it is conceivable that a firm could target the price sensitive segment and pursue a differentiation strategy: here the firm would be able to price marginally above the average prices of firms serving this segment.

But to be a "true" focussed cost leader serving the price sensitive segment would require the firm to charge average prices and achieve the lowest cost position of the firms serving this segment. And, again, to be a "true" focussed differentiator serving the delicatessen segment, the firm would have to premium price above other delicatessens. Figure 5.2 summarises

FIRM

SEGMENT	Average Player	Above Average Player
Price Sensitive	Average prices for the segment, with average costs.	Either: Average prices and lowest costs Or: Average costs and premium prices or both (lowest cost with premium prices)
Price Insensitive	Average prices for the segment with average costs.	Either: Average prices and lowest costs Or: Average costs and premium prices or both (lowest cost with premium prices)

FIGURE 5.2 Segments and Superior Performance

this argument, using two segments of a market. In each case, the above average player in the segment outperforms its rivals serving this segment (the "average" players).

Thus comparing firms within a broad definition of the "grocery" industry, as Porter does in his discussion with Sainsbury, involves comparing firms who are not perceived, from the vantage point of an individual consumer, to be in competition with each other (whether the consumer is in the price sensitive segment, the price insensitive segment, or middle ground).

To summarise this review of the literature, a number of issues concerning the generic strategies have emerged:

* Is cost leadership associated with competing on price? If it is, then it is not clear that the combination of a low price/low cost strategy will lead to superior profit performance.

* Do differentiators premium price? Or can they achieve superior performance by increasing market share?

* How is competition to be defined? Over whom do the firm premium price, or achieve lowest costs? Indeed, is the selection of one of Porter's generic strategies more a decision about **where** to compete than about **how** to compete?

* Can firms pursue cost leadership and differentiation simultaneously?

* Do either of the generic strategies lead to competitive advantage defined in "output" terms (ie. increasing market share)?

To conclude this discussion it is useful to trace the origins of Porter's approach. The Generic Strategy concepts were derived from an economics perspective. Fundamental to Porter's theory

is the concept of the industry (Porter 1980:1), and its "underlying economic structure" (Porter 1980:3). The industry is conceived of in "product" terms, and competition is defined by firms that offer products that are "close substitutes for each other" (Porter 1980:5). The generic strategies are presented as ways of "coping with the five competitive forces" (Porter 1980:35), and they are essentially tautologies (the lowest cost producer that charges average prices must, by definition, have above average profits; similarly, the differentiator that combines premium prices with average costs, must have above average profits). Porter supports his theory with numerous anecdotal examples of firms supposedly pursuing one or other of the generic strategies.

In order to answer some of the questions listed above, therefore, it may be appropriate to adopt a non-economics based perspective. The intention is to draw on the perceptions of practising managers to inform our understanding of competitive strategy (previous studies adopting this approach include Dess and Davis (1984) and Aaker (1989)). In this way a "managerial theory" of competitive strategy can be constructed which addresses the ambiguities and inconsistencies in Porter's concepts.

5.4 MANAGERIAL PERCEPTIONS OF THE GENERIC STRATEGIES

Porter's generic strategy concepts underpin the design of the "Perceptions of Strategic Priorities" questionnaire, for the reasons outlined in Chapter 3. The development and pilot testing of the questionnaire indicated that managers could relate to the statements derived from the two generic strategies, cost leadership and differentiation. The "three factor solution" to the overall database (the 1109 managers) produced three factors that were easily interpretable as:

Factor 1 Cost Leadership

Factor 2 Change

Factor 3 Differentiation

The three factor solution explains 42.76% of the variance in the data.

By inspecting the Eigenvalues it appears that five factors have eigenvalues > 1.0. This indicates that each of the five factors explains more of the variance in the data than an individual variable. This rule of thumb is frequently used when interpreting the underlying structure of a set of data (Dess and Davis:1984). This suggests that a five factor solution may well reflect the structure of the data more appropriately than the three factor solution.

Hence a five factor analysis was conducted on the database, the results are summarised in Table 5.1. This solution explains 55.22% of the variance. This is an improvement on the three factor solution, but adding more factor necessarily increases the percentage of variance explained.

The five factors have the following variables loading on them (loadings > 0.5):

Factor 1 : v1, v13, v5, v8, v6:

Factor 2 : v14, v2, v16, (v20), (v4):

Factor 3: v7, (v12), v10, v9 :

Factor 4: v21, v11, v19, v15 :

Factor 5: v18, v17, v3, v9 :

(Variables in brackets indicate negative loadings)

Table 5.1 Five Factor Solution: Rotated Loadings

Factor	1	2	3	4	5
V(1) Operating Costs	0.818	0.060	-0.012	0.097	0.002
V(13) Monitor Costs	0.797	0.083	-0.017	0.085	0.020
V(5) Cut Overheads	0.681	0.054	0.008	0.131	-0.146
V(8) Capacity Utilization	0.558	0.004	0.020	0.118	0.193
V(6) Low Cost Supply	0.538	-0.029	0.055	0.336	0.020
V(14) Different Operations	0.005	0.801	0.074	0.120	0.028
V(2) Changed Strategy	0.009	0.744	-0.022	0.074	-0.003
V(16) Changed Structure	0.013	0.731	0.109	0.136	0.048
V(20) Same Operations	-0.018	-0.705	-0.180	0.026	0.024
V(4) Little Org. Change	-0.175	-0.606	-0.062	0.122	-0.135
V(7) Regular NPD	-0.010	0.097	0.753	0.144	0.217
V(12) No Product Change	0.017	-0.234	-0.706	0.156	0.170
V(10) NPD Priority	0.041	0.110	0.675	0.199	0.249
V(9) Unique Products	0.046	-0.025	0.508	-0.188	0.542
V(21) Competitive Prices	0.142	0.084	-0.151	0.778	0.095
V(11) Emphasize Prices	0.101	-0.037	0.120	0.753	0.104
V(19) Lowest Cost	0.234	0.063	0.079	0.616	-0.084
V(15) Price Sensitive	0.426	0.157	0.073	0.538	0.165
V(18) Superior Products	0.146	0.137	0.185	0.153	0.660
V(17) Sales Information	-0.261	0.017	-0.206	0.080	0.652
V(3) Distinctive Products	0.147	0.027	0.288	0.044	0.626
Percentage of Total Variance Explained	13.25	13.05	9.73	10.51	8.67

5.4.1 DESCRIBING THE FIVE FACTOR SOLUTION

Factor 1: Cost Control

This factor is easily interpretable as "cost control". The statements that load on it are about monitoring and controlling operating costs (v1, v13), cutting overheads (v5), maintaining capacity utilization (v8), securing low cost supply (v6). Interestingly, V19 ("We aim to be the lowest cost producer in our industry") does not load strongly on this factor (a loading of only 0.234).

Factor 2: Change

This is the "Change" factor. Statements about changing operations (v14, v20), changing strategic direction (v2) and changing organizational structures and processes (v16) all load onto this factor. However, the statements about product change, and new product development do not load on this factor (v7, v12, v10). This suggests that managers do not perceive organizational change and product change as necessarily related.

Factor 3: New Product Development

The product change statements load on this factor (v7, v12, v10). But, in addition v9 ("We try to offer unique products/services enabling us to charge premium prices") also has a loading greater than 0.5 (0.508). This would suggest that new product development is linked to the achievement of uniqueness, and to premium pricing.

Factor 4: Compete on Price

This factor embraces the statements to do with competing on price (v11), offering similar products/services to the competition (v21), and having price sensitive customers (v15). Statement 19 ("We aim to be the lowest cost producer in our industry") also loads on this factor (0.616). This would support the suggestion that some managers have interpreted this statement as aiming to be the lowest PRICED producer. However, we cannot exclude the explanation that other managers perceive that, to compete on price, an SBU needs to be very low cost.

Factor 5: Superior Products

This factor has statements about offering superior, and unique products (v18, v9), emphasizing distinctive products in marketing communications (v3). Sales performance information is considered to be more important than cost control information (v17). Factor 5, then is about offering superior products/services, and being sales, not cost orientated.

The four strategy-orientated factors (F1, F3, F4, F5) can be summarised as follows:

F1 Cost control

F3 New product development

F4 Compete on price

F5 Superior products

5.4.2 INTERPRETING FACTOR 1: "COST CONTROL"

Factor 1 includes all the cost control statements that were in the original "Cost Leadership" factor. However, those statements that were concerned with price competitiveness that previously loaded on the Cost Leadership factor, now load on Factor 4. Thus, the cost control factor (Factor 1) is focussed exclusively internally on priorities associated with cost reduction and efficiency.

Factor 1 (cost control) pursued alone by an SBU would not confer competitive advantage. Cost control per se is invisible to consumers. Cost advantages can be translated into either lower prices, or higher perceived value (by adding product features whilst not raising the price) which **would** confer competitive advantage. Cost control activities that were not converted into either of these forms of competitive advantage would lead to superior profits if the firm was able to achieve a lower than average cost level as a result. However, the risk of pursuing just cost control are that the firm may be out manoeuvered by a competitor. The profit advantages may prove to be short term if competitors move to cut price, and/or add perceived value.

5.4.3 INTERPRETING FACTOR 4: COMPETE ON PRICE

Factor 4 (Compete on price) includes the need to be the lowest cost producer. Firms may proactively opt for this strategy (to squeeze out competitors, for example), or firms may find themselves left with this as the only option. Miller and Friesen's (1986a) Cluster 3 and 4 SBUs could be regarded as pursuing a proactive price competitive strategy. These SBUs support their competitive prices with efforts to reduce costs.

However, if there has been little effort put into improving the perceived value of the products, a firm may find itself falling

behind its competitors. Faced with falling market share the management may cut prices. However, unless the firm has a very low (relative) cost base the squeeze on margins that may result from price cutting could be crippling.

Unfortunately, if the firm has fallen behind the competition with respect to perceived value, it may well be lacking in a positive drive to control costs. In short, the firm may generally lack strategic direction. The absence of strategic purpose that led to the the problem with relative perceived value may not be compensated by a strong sustained drive to cut costs. So we may find a poorly managed firm being forced to compete on price, recognising that they have to be lowest cost, but without the emphasis on cost control that would be required to achieve the lowest cost position (ie Factor 3 not combined with a strong Factor 1 thrust).

Miller and Friesen's empirical study (1986a;1986b) revealed four "failure" clusters of SBUs. In explaining some of these clusters they surmise a vicious circle of failure: "...poor product quality can erode market share, requiring a subsequent reduction in prices." (Miller and Friesen 1986b:258).

Thus we would expect that a strong cost control orientation would be associated with superior profit performance, provided that the firm was not reactively cutting price. A cost control orientation per se would not affect sales performance.

5.4.4 INTERPRETING FACTOR 3: "NEW PRODUCT DEVELOPMENT"

Factor 3 can be interpreted as:

"New product development/uniqueness/premium price"

This would suggest that managers who perceive their SBU's to be

stressing new product development, are also aiming for uniqueness and the ability to premium price.

New product development may be undertaken for a variety of reasons, including the following:

* it is a feature of the industry (new product development is one of the "rules of the game": Miller 1988:284)

* it is to help achieve a superior competitive position in an industry that has not, traditionally, competed via product innovation

* new product development meets management aspirations

New product development may be a continual priority where the industry "rules of the game" dictate this. A failure to innovate would lead to competitive disadvantage. Alternatively, where product innovation is used aggressively to gain a competitive advantage it would be linked to the pursuit of superior/unique/distinctive products or services.

As explained in Chapter 2, Miller (1986) suggests a subdivision of Porter's Differentiation strategy into innovative differentiation, and marketing differentiation. He suggests that this distinction is necessary largely due to the different organizational requirements of these routes to competitive advantage. Innovative differentiation requires the firm to continually develop new products or services, whereas in the case of marketing differentiation the products or services may remain substantially unaltered, the differentiation effort is concentrated in marketing activities designed primarily to alter consumers' perceptions of the products. Innovative differentiation would require a flexible, decentralised structure, whereas marketing differentiation may be sustainable with or

much more mechanistic organizational form (a machine bureaucracy: Mintzberg 1979). Only the marketing activity would require organic, adhocratic forms of structure; and in some cases this activity would be sub-contracted.

There are connections, therefore, between these forms of differentiation and the five factor solution presented here. Factor 3 could be interpreted as Miller's innovative differentiation. New product development, and uniqueness leading to premium pricing load on this factor.

In Miller and Friesen's study (1986a;1986b) Cluster 7 could be interpreted as a New Product Development cluster. These SBUs rate significantly above average on price premium, relative direct costs, product R&D/Value Added. They are also the only cluster to have a positive rating on "percentage of new products".

5.4.5 INTERPRETING FACTOR 5: "SUPERIOR PRODUCTS"

Miller's "marketing differentiation" (1986) would correspond to Factor 5. Here new product development is **not** stressed as a means towards achieving uniqueness; distinctive products, or image conveyed through marketing communications loads strongly on to this factor.

Offering superior products or services to the competition should improve market share. Increases in share can lead through to improved profit performance if the firm takes advantage of, for example scale economies (eg spreading overheads), and/or experience curve benefits. Thus Factor 5 should be linked to relative sales performance (market share), and it may be linked to relative profit performance.

Miller and Friesen's (1986a) Cluster 1 and 2 SBUs correspond to the "Superior Products" strategy. Here the SBUs do not pursue

product innovation, but they do emphasize product quality and the promotion of perceived product quality (through advertising and promotional expenditure).

5.5 COMPARING THE FIVE FACTOR SOLUTION WITH DESS AND DAVIS (1984)

Dess and Davis' (1984) study is directly comparable to the approach used here to investigate managerial perceptions of the generic strategies, therefore it is useful to compare their results with those presented here. Their factor analysis produced five factors with eigenvalues > 1. However, they chose to eliminate two of the factors, leaving three which they interpreted as supporting the generic strategies: a differentiation factor (which explained 32% of the variance); a "low cost" factor (10.7% of the variance); and a "focus" factor (8.6%). "Competitive methods" that loaded on these three factors, that had loadings greater than 0.50 were as follows:

Factor 1 "Differentiation"

Brand Identification; Innovation in marketing techniques and methods; Control of channels of distribution; Procurement of raw materials; Advertising; Forecasting market growth.

Factor 2 "Low Cost"

Operating efficiency; Product quality control; Experienced/trained personnel; Developing/refining existing products; Procurement of raw materials; Reputation within the industry; Forecasting market growth.

Factor 3 "Focus"

New product development; Capability to manufacture speciality products; Products in high price market segments.

These results could be interpreted as confirming the "five factor" solution derived here. Dess and Davis' Factor 1 is equivalent to the "Superior Products" factor; their Factor 2 is equivalent to the "Cost control" factor; and their Factor 3 is equivalent to the "New Product Development" factor. Moreover, one of their "competitive methods" statements refers to "Competitive Pricing". This method does not load on either of the three selected factors. We must assume, therefore, that the statement loads on one or other of the discarded factors. This, then, would corroborate further the similarities between the two studies.

In the second phase of their study, Dess and Davis compare the factors derived from the managers' responses with competitive methods identified by "experts" as pertaining to each of the generic strategies. The comparisons reveal a marked lack of agreement between the "experts" and the managers, although Dess and Davis do not interpret the results in this way. Of the 21 competitive methods used, only four are rated by both groups as being important to a differentiation strategy; four are commonly rated as pertaining to "low cost"; and only one method is commonly rated as pertaining to "focus". Important differences between the experts and the managers include "competitive pricing" (rated by experts only as pertaining to cost leadership); and new product development (rated by experts as pertaining to differentiation, but not by managers).

This would support the view that managers' perceptions of competitive strategy are different from those of "academics", and it reinforces the usefulness of the approach adopted in the present study.

5.6 THE FIVE FACTOR SOLUTION AND PERFORMANCE

Table 5.2 contains summary statistics for both the three and five-factor solutions. The factor scores for each SBU are averaged across all the respondents to produce a mean factor score for each SBU. These mean scores are then regressed against the two performance measures: relative profitability, and relative sales performance.

The three factor solution produces two statistically significant relationships:

Factor 3 ("Differentiation") and Relative Profitability (R^2 = 0.175; p = .011)

Factor 3 ("Differentiation") and Relative Sales Performance (R^2: 0.158; p = .016)

These relationships would tend to support the Porter contention that a strategy of Differentiation will lead through to superior performance.

These models assume a continuous rather than a categorical relationship between these variables. In other words, the more "aggressively" the strategy of differentiation is pursued (indicated by a higher mean Factor 3 score) the better the performance.

As explained above, the five factor solution disaggregates the statements that loaded on the Differentiation factor. These statements are now divided between Factor 3 (new product development) and Factor 5 (Superior products). It can be seen from Table 5.2 that Factor 5 is associated with both performance measures, but that Factor 3 (New Product Development) is not associated with either performance

Table 5.2 Comparing the Three and Five Factor Solutions and Performance

	PROFITABILITY			SALES		
3 FACTOR	R^2	P	STD COEFF	R^2	P	STD COEFF
Cost Leader	0.050	0.189	0.224	0.037	0.262	0.192
Differentiation	0.175	0.011**	0.419	0.158	0.016**	0.398
5 FACTOR						
F1 Cost Control	0.086	0.082*	0.293	0.070	0.120	0.264
F3 Innovation	0.036	0.265	0.191	0.022	0.387	0.149
F4 Price Compet.	0.000	0.938		0.000	0.968	
F5 Superior Prod	0.178	0.010**	0.422	0.180	0.010**	0.425

measure. As explained above, this strategic thrust corresponds to Miller and Friesen's (1986a) Cluster 7, which proved to be a poor performing cluster of SBUs.

The strongest relationship is between Factor 5 and Sales performance (R^2 = 0.180; p = .010), but the profit relationship is also significant (R^2 = 0.178; p = .010).

To recap, Factor 5 is about offering superior, unique, distinctive products and services, and being sales not cost orientated (Statement 17). This orientation is associated with good performance. According to these results, the new product development is not linked to performance.

Factor 1 (Cost Control) is associated with relative profitability (R^2=0.086; p = 0.082). But, it can be seen from Table 5.2 that the "Compete on Price" factor (Factor 4) does not correlate with either of the performance measures.

5.7 A MANAGERIAL THEORY OF COMPETITIVE STRATEGY

The challenge presented by these findings is to see if they can be interpreted in such a way as to provide a coherent managerial perspective of competitive strategy, which avoids the ambiguities and inconsistencies of Porter's approach.

Two of the factors are clearly associated with gaining competitive advantage: one route to advantage is through offering superior products or services (F5); the other is through competing on price (F4).

These two competitive thrusts can be represented on the chart in Figure 5.3. The vertical axis represents perceived use value. This

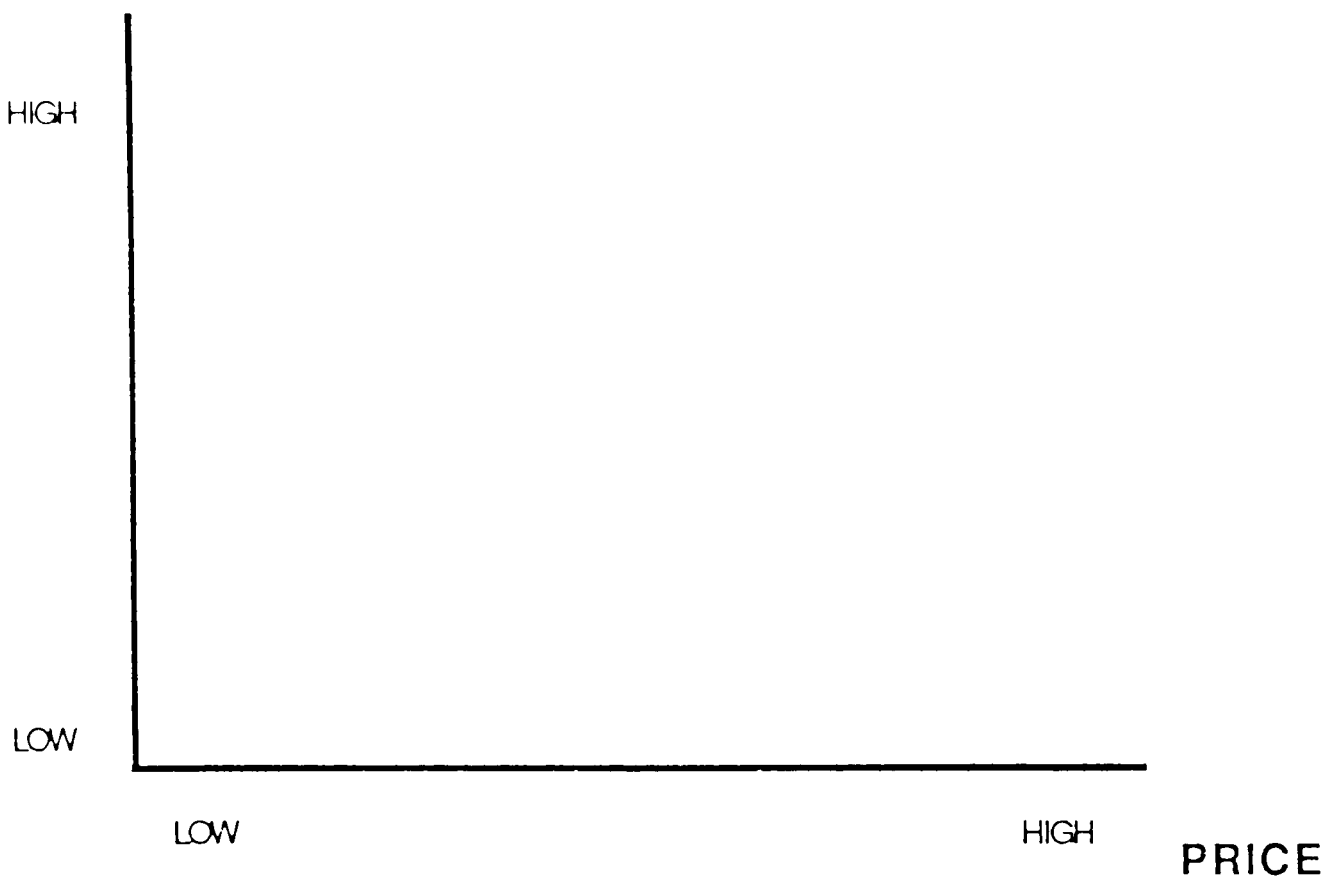


FIGURE 5.3 THE PERCEIVED USE-VALUE/PRICE CHART

is the value "in use" perceived by consumers; the tangible and intangible benefits perceived to accrue to the consumer through purchasing and consuming the products/services; to borrow a term from economics, this axis represents the perceived "utility" of the products/services on offer. The horizontal axis measures price.

Dickson and Ginter (1987) stress the importance of consumer perceptions in establishing their definition of product differentiation:

"product differentiation is where a product offering is **perceived** by the consumer to differ from its competition on any physical or nonphysical product characteristic including price" (Dickson and Ginter 1987:4)

Day and Wensley (1988) take a similar line:

"...though advantages reside in superior skills and resources, they are revealed in competitive product markets. A point of advantage can be exploited profitably only when it offers significant benefits that are **perceived and valued** by customers....." (Day and Wensley 1988:16)

A position in the space defined by the two axes could be viewed as representing a particular "value for money" combination of perceived use value and price (European Management Journal 1987:5).

5.7.1 REPRESENTING THE CONSUMER ON THE CHART

In order to represent the consumer in the diagram, in Figure 5.4 three "indifference curves" are displayed representing three different segments of consumer demand. In order to explain the relevance of the curves, we will use the example used by Porter (1987) to explore his generic strategy concepts: the "auto

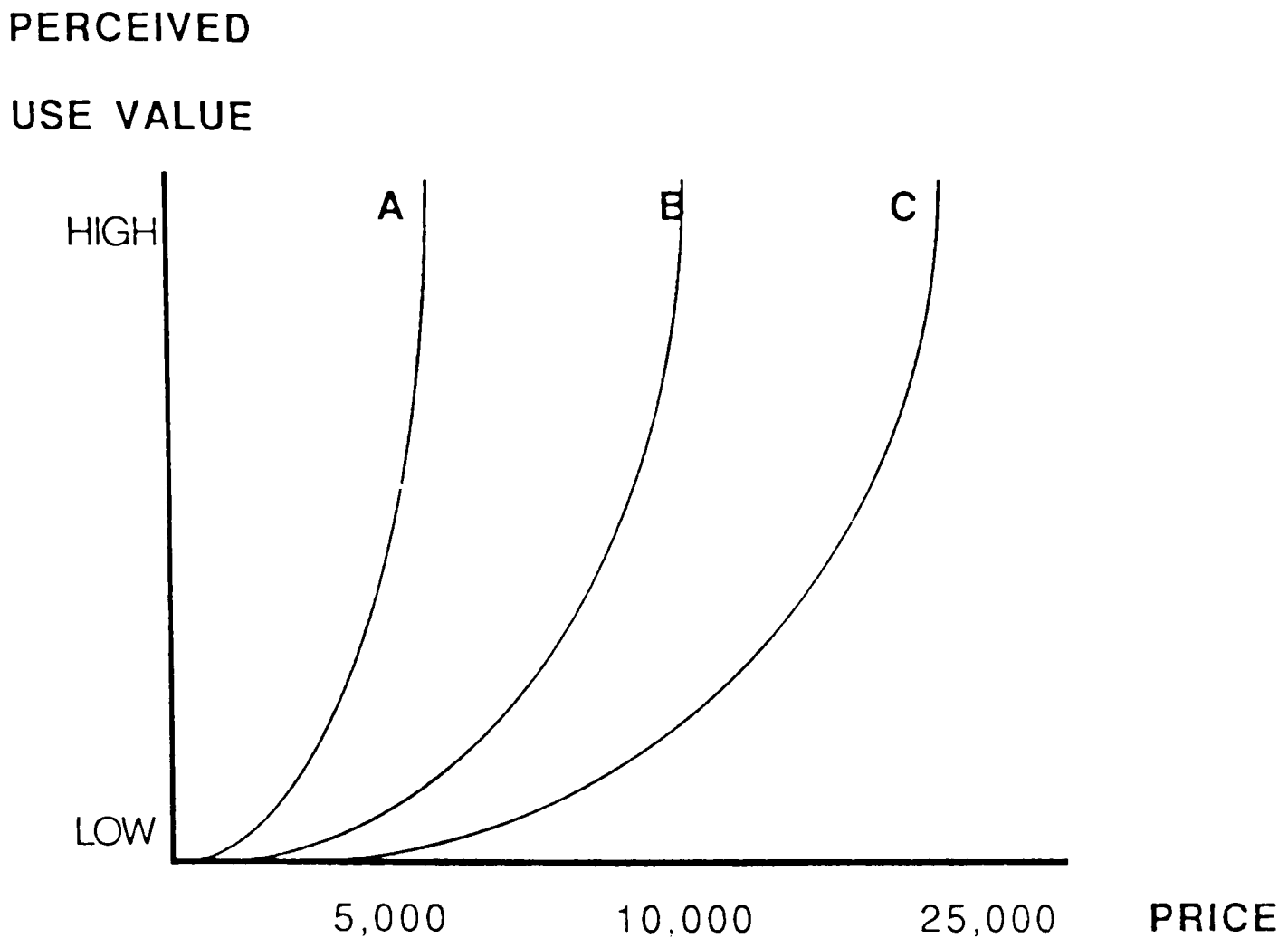


FIGURE 5.4 THREE SEGMENTS IN THE CAR MARKET

industry".

Segment A are price sensitive consumers, and are only able, or are only prepared to pay up to £5,000 for a new car. Segment B are less price sensitive, but their price range has an upper limit of £10,000. Segment C are prepared to pay up to £25,000 for a car that they perceive to offer high use value. Each indifference curve represents a set of combinations of price and perceived use-value that consumers view as equivalent: they are "indifferent" between these combinations. For each segment, the indifference curve represents the "boundary" of acceptable price/use value combinations. For example, the Segment A consumer cannot afford, or is not prepared, to pay more than £5,000.

By plotting these three segments on the same chart we are assuming that all three segments value very similar attributes of cars, and, as such, the Segment A consumer can appreciate that a very expensive car could nevertheless represent "value-for-money" even though it is well outside his price range. We are assuming therefore, that adding perceived use-value means the same thing to all three segments. If this was not the case, then it would not be appropriate to draw all three segments on the same chart. So, for our example of the auto industry, we could assume that all three segments were interested in one class of cars, family saloons.

If a consumer moves along his or her indifference curve they do not perceive any change in the "value for money" combination of perceived use value and price. However, nested within each of the "boundary" indifference curves, are curves that represent higher "value for money" combinations. If consumers can move to higher indifference curves, they perceive themselves to be better off. (See Figure 5.5)

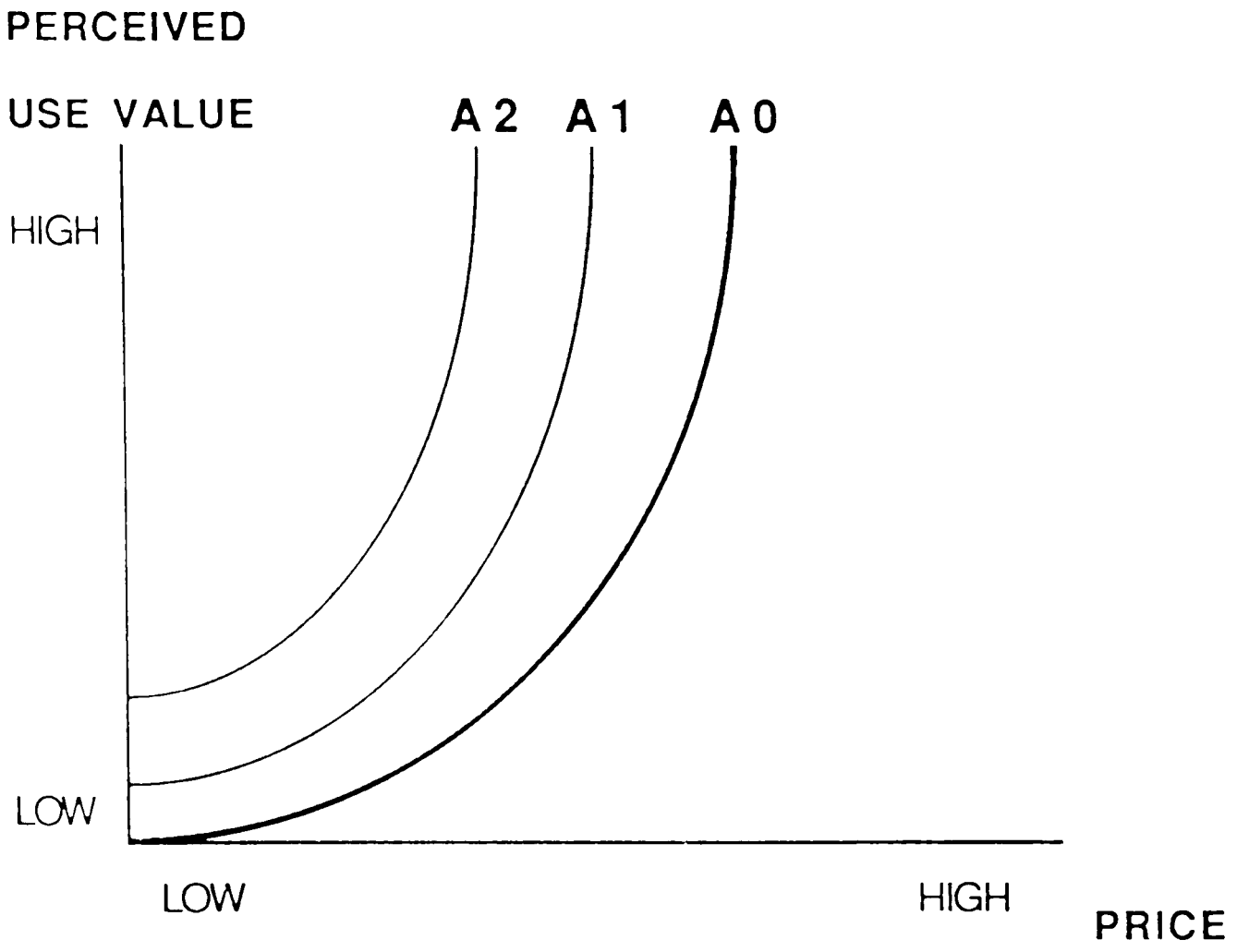


FIGURE 5.5 HIGHER INDIFFERENCE CURVES FOR SEGMENT A

5.7.2 LOCATING FIRMS ON THE CHART

In the situation depicted in Figure 5.6 all firms are perceived to be offering very similar use values, and they all charge very similar prices. This approximates to a commodity industry, where there is no product differentiation. In our auto industry example, this would represent a situation where consumers were offered a standard type of car, for a fixed price. If this was the situation, then Segment A consumers would not be in the market at all, as the price of these standard cars is too high for them (about £10,000).

5.7.3 REPRESENTING PORTER'S GENERIC STRATEGIES ON THE CHART

How might Porter's generic strategy options be represented on this chart? As we have argued earlier, Porter's Cost Leadership strategy, strictly interpreted, would mean that one of the cluster of firms has achieved the lowest cost position. As a result, that firm will be earning superior profits. But because, by definition, the cost leader offers average prices and average quality, in the eyes of the consumer the firm is identical to the others. In this case it is difficult to argue that the cost leadership strategy has enabled the firm to gain a **competitive** advantage over the other firms. This strategy, per se, would not affect relative market shares at all. The cost leader does, however, have the **potential** to behave in ways that would be perceived to be valuable to the consumer: its low cost position could enable it to cut price, or to add more perceived use value than the competition. In this sense, then, the cost leader has the potential capacity to gain market share through moving west (cutting price) or north (adding perceived use value), or doing both simultaneously (moving northwest).

How, then would Porter's Differentiation strategy be represented on the chart? Porter argues that the successful differentiator

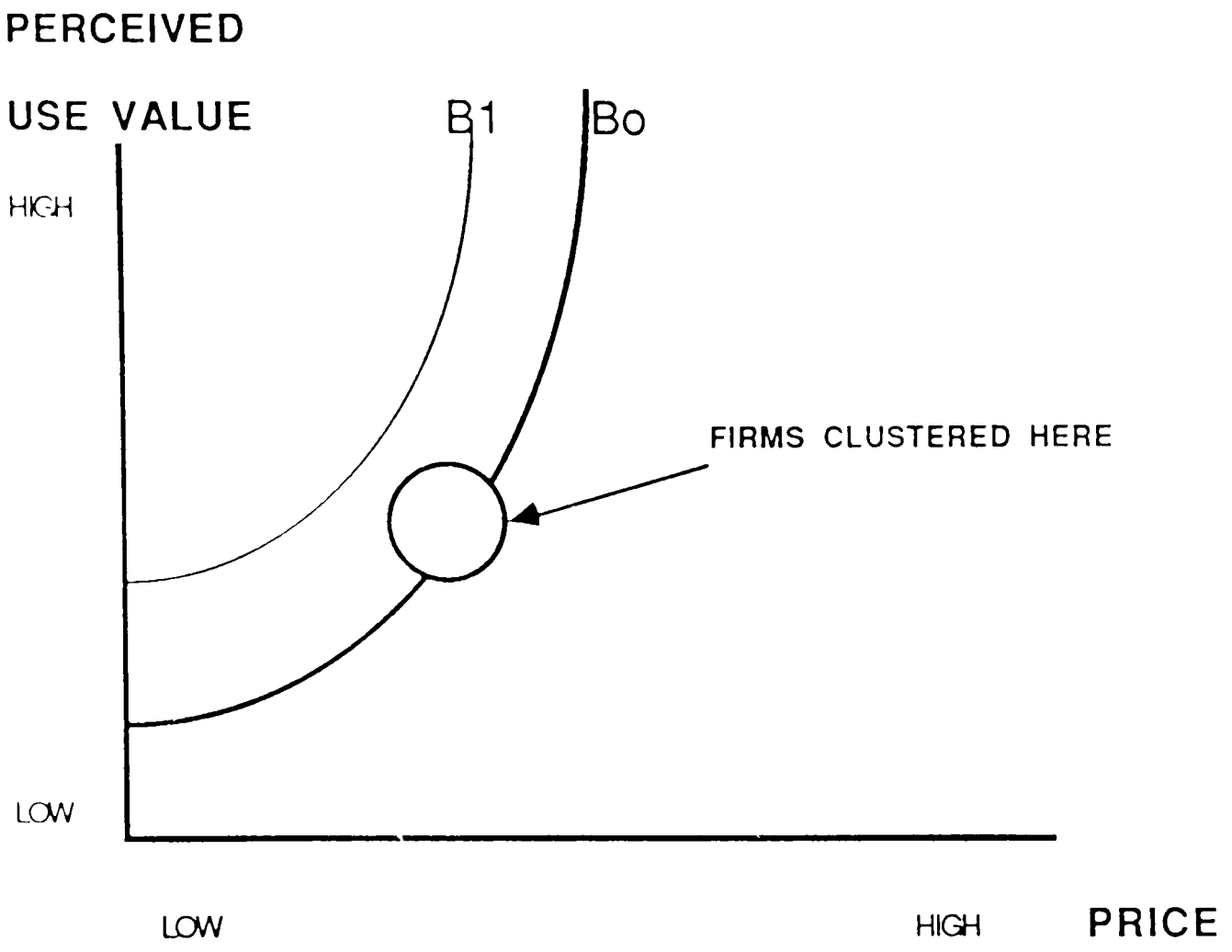


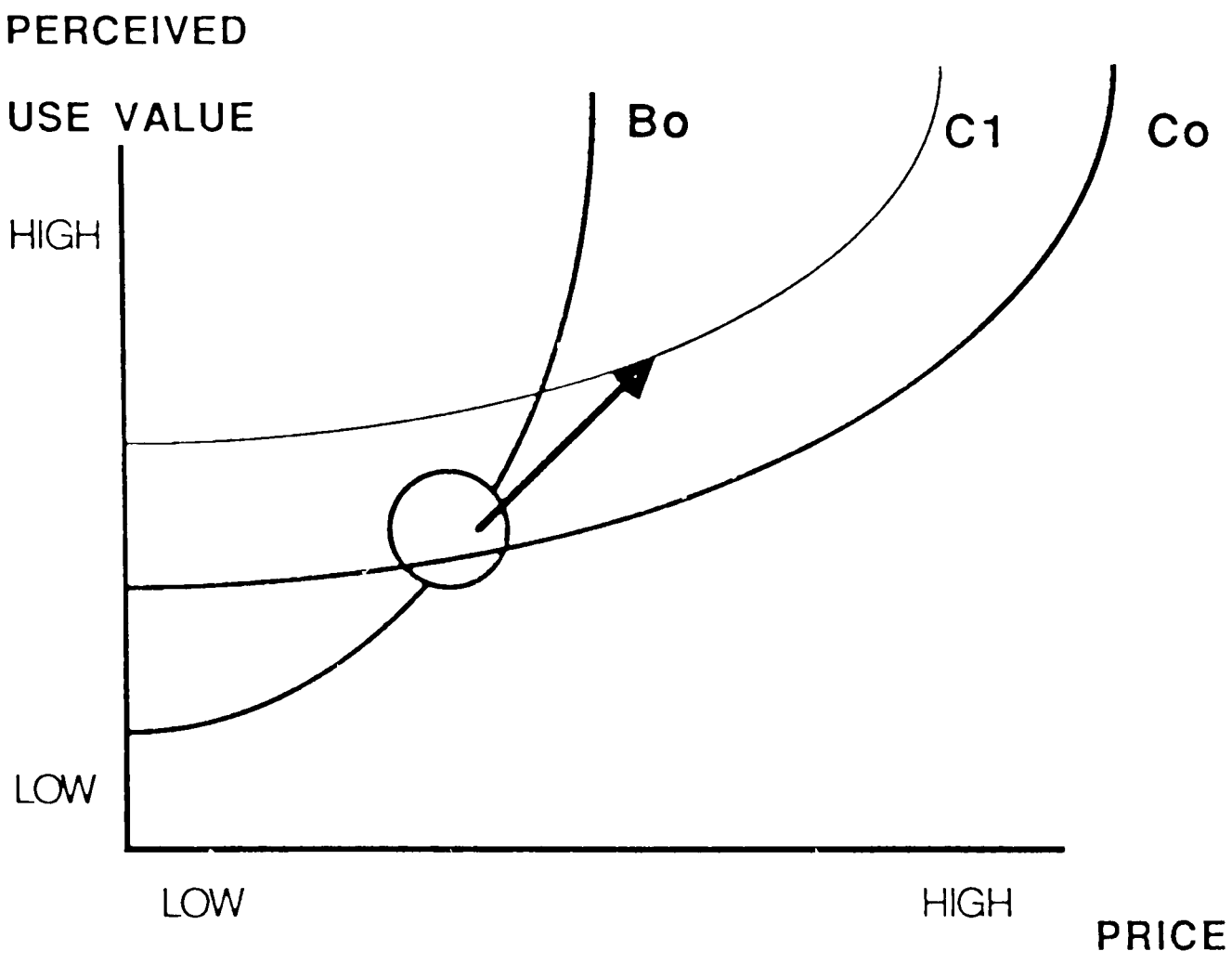
FIGURE 5.6 LOCATING FIRMS ON THE CHART:
A "COMMODITY" INDUSTRY

offers superior value, and can, as a result charge premium prices. This would move a firm away from the cluster of other firms towards the north east part of the chart (higher perceived use value, combined with higher prices, depicted in Figure 5.7). Note that this combination would not attract any Segment B consumers. The offerings of the differentiator are now outside their price range. However, the Segment C consumer would find this combination attractive, as it enables him or her to move to a higher indifference curve (Figure 5.7).

Thus, Porter's differentiation strategy represents a competitive strategy that, for it to be viable, requires the existence of less price sensitive segments in the market place. Therefore Porter's differentiation is really to do with identifying and serving relatively price insensitive segments. It is, therefore, primarily about choosing the ground on which to compete.

In order to explain the bases of the theory, we have assumed that all the firms were initially clustered together. This is clearly not the case in the auto industry cited by Porter. Porter suggests that, in the auto industry, Mercedes and BMW are successful differentiators. These firms offer products targeted at the relatively price insensitive consumer (our Segment C consumers).

If a firm serving Segment B decided to become a "differentiator", it would, presumably increase the perceived use value it offered and increase the price of its cars. Would this firm gain competitive advantage? This begs the question: over whom would this firm be looking to gain competitive advantage? From our chart (Figure 5.7) the Segment B consumer would only tolerate a very marginal price increase (maybe 5% ?), even if the perceived use value associated with it were high. If the differentiator were looking to premium price above this level he would be moving away from one group of competitors, those who are staying to serve Segment B.



IGURE 5.7 PORTER'S DIFFERENTIATION STRATEGY

If the differentiator is moving to serve a different segment, then the relevant question is whether the firm has gained advantage over the existing servers of this different segment (those currently serving Segment C), rather than those left serving Segment B. Simply trying to move from Segment B to serving Segment C does not confer any competitive advantage. In the auto industry example, this would be a firm like Nissan (serving Segment B), moving up to compete with Mercedes and BMW (who are the incumbents serving Segment C). We could only judge whether Nissan had gained competitive advantage by comparing them to Mercedes and BMW, not Ford or Fiat.

To conclude, plotting the generic strategies on this chart highlights that:

* cost leadership, per se, does not confer competitive advantage

* differentiation is essentially to do with choosing the ground on which to compete, it is not about gaining competitive advantage

5.7.4 REPRESENTING THE MANAGERIAL STRATEGIC THRUSTS ON THE CHART

To recap, the factor analysis revealed four strategic thrusts:

F1 Cost control

F3 New product development

F4 Compete on price

F5 Superior product

F4 Compete on Price

We will examine, first, the F4 thrust which is about competing on price.
The F4 thrust moves the firm to the west on the chart (Figure 5.8): here the firm is offering the same perceived use value as the competition, but is charging lower prices. Note that this assumes that the consumers do not use price as an indicator of perceived use value. If some of them do, then the move west becomes a shift southwest: in the consumers eyes the firm is not offering equivalent use value to the competition.

If all the competitors remained where they were, this price cut would lead to a dramatic increase in market share, as the Segment B consumers could all now access a higher indifference curve by moving to the price cutter's products. Because of this it is inevitable that the other firms will be forced to cut prices to, at least, match those of the first mover. The net result would be a new, lower, average price ruling in the industry, and with shares probably remaining unchanged. The likelihood, therefore, that firms will imitate this competitive strategy is high, in the short term.

There may be, however, frictions that may make it difficult or costly for consumers to immediately switch to the lower priced offering (tangible switching costs), or the product may be an infrequent purchase. These factors may reduce the need of the higher priced firms to immediately cut prices to match the first mover.

In order to sustain competitive advantage from this thrust the firm would have to continually drive down prices. This could only be possible if the firm had lower costs than the competition (it might ultimately have to be **the** lowest cost producer), or if it were funded by other, profitable, parts of its parent corporation. The risks associated with this strategy are high: unless a firm can be confident that it can ultimateley benefit from price

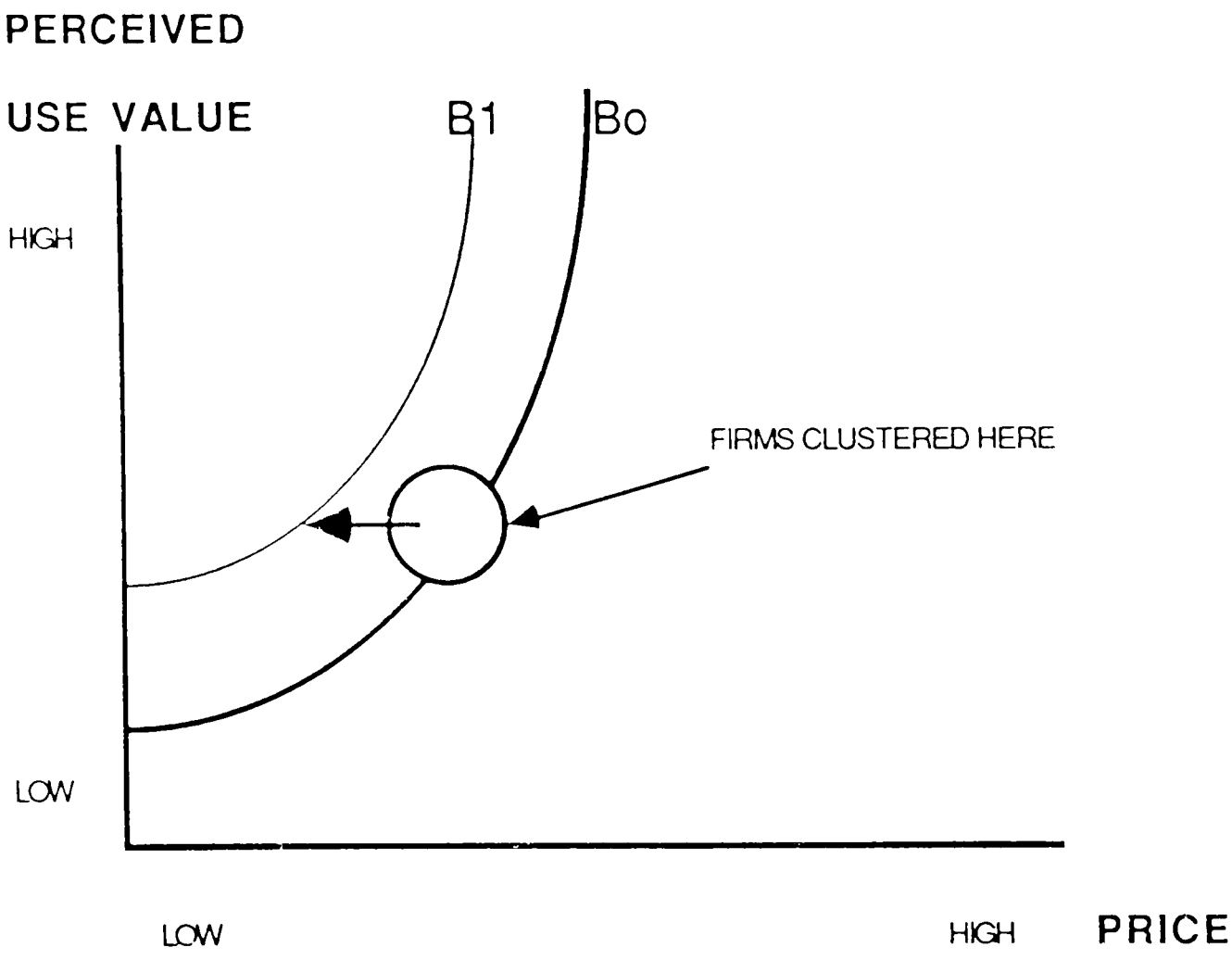


FIGURE 5.8 COMPETING ON PRICE

cutting, the probability is that this manouevre merely reduces industry profitability. However, if a firm can achieve low prices and lowest costs (by, for instance, translating market share gains into experience, and scale, cost advantages) it may be abie to drive out higher cost competitors. Having achieved this, and having set up some additional entry barriers in the process, the firm may then begin to raise prices.

In order to sustain this route to competitive advantage, therefore, the firm must be able to sustain lower prices for longer than the competition. This would suggest a need to be the lowest cost producer in the industry. Therefore, despite the reservations expressed about the interpretation of Statement 19 ("We aim to be the lowest cost producer in the industry"), its loading on Factor 4 (compete on price) may in fact reflect both interpretations: the firm needs to be lowest price, AND lowest cost if it is to successfully pursue this option

F5 Superior Products

The F5 thrust moves the firm North, away from the other competitors, by offering higher perceived value for the same price. The new offering combines higher perceived use value with the same prices as the competition, a combination that places consumers on a higher indifference curve (see Figure 5.9). In order to achieve this the firm must know what it is that customers value, and communicate to consumers that they can deliver this. It should be noted that a firm's efforts to add value may not be appreciated by customers (for example, the case of P&G "potato chips" cited by Aaker (1989:99)). In other words, the management may perceive that they have shifted their SBU north, but, in the eyes of consumers the firm may still be seen to be offering equivalent products/services to the competition.

Moving north by adding perceived use value may offer more

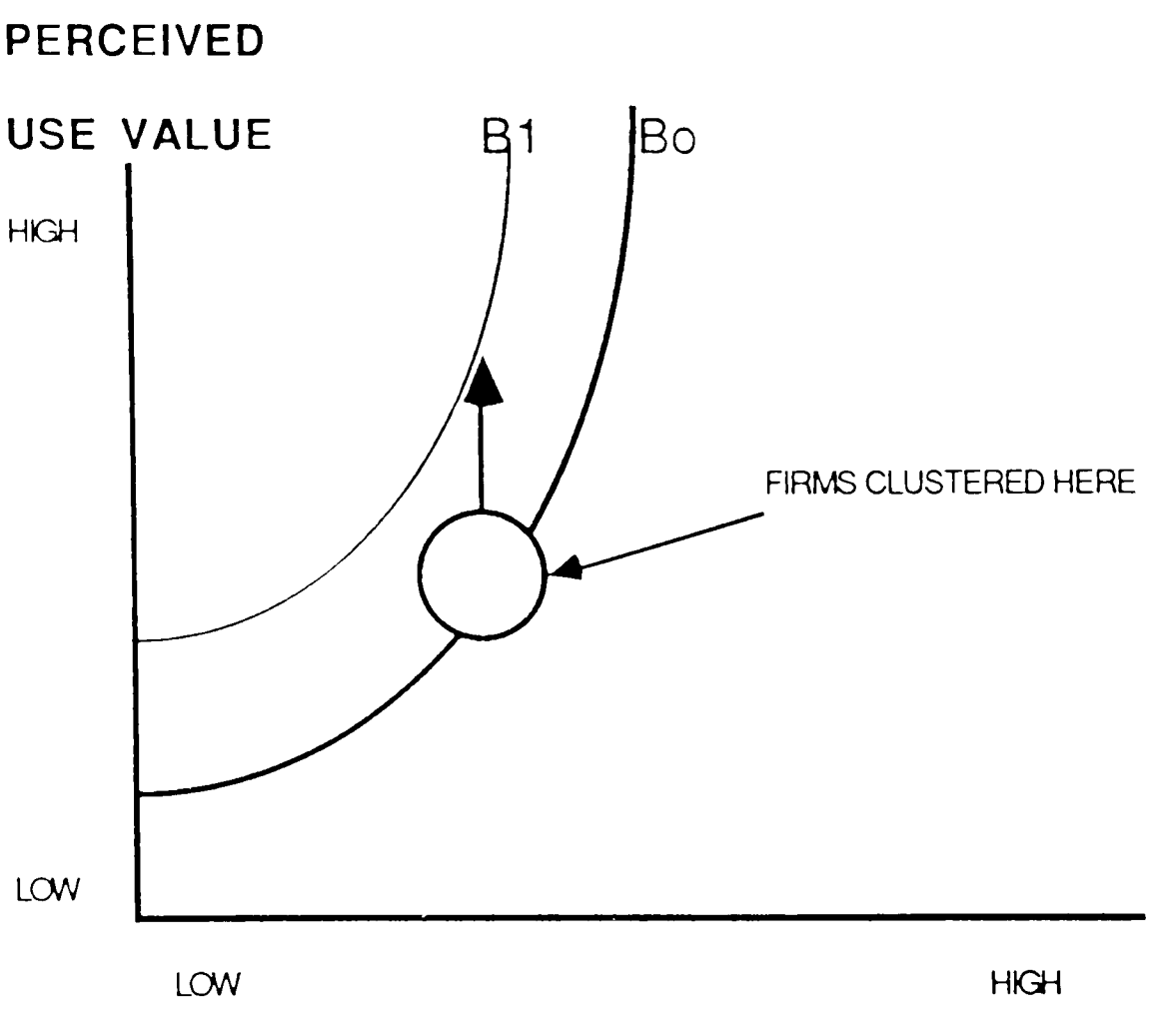


FIGURE 5.9 SEGMENT B: OFFERING HIGHER PERCEIVED USE VALUE

opportunities to achieve sustainable advantages than the price cutting strategy (F4), particularly if the firm can add many dimensions of perceived use value. In addition, the source of higher perceived use value may be difficult for other firms to imitate: brand identity, physical location, proprietary expertise, patents.

Both of these thrusts, F4 and F5, will lead to competitive advantage: the firm will increase its market share by either of these moves, and will sustain this advantage as long as no other firms follow suit and imitate the move; or until consumers change their preferences. The moves west (cutting price) would not appear to offer the same opportunities to achieve sustainable competitive advantage as moves north. Price cuts can be quickly matched (indeed competitors may have no option but to follow the price cutter downwards).

F3 New Product Development

F3 (New Product Development) is linked with the pursuit of uniqueness and premium pricing (Statement 9). Firms pursuing this thrust would be moving northeast in Figure 5.10. This move could still be regarded as a competitive strategy as long as the price premium was not so great as to move the firm away from its existing segment. If the price premium is large enough to move the firm away from its existing customer base, then the chart should be redrawn. Now the firm should be positioned along with other firms who are perceived by this less price sensitive segment as offering competing products.

Movements on the diagonal (Northeast, or Southwest) should properly be regarded, then, as movements to different segments of demand. For example, if a firm moved northeast it would clearly be offering higher perceived value, and charging higher prices. To return to Porter's example of the "auto" industry, this would be moving "up market". The middle ground (serving

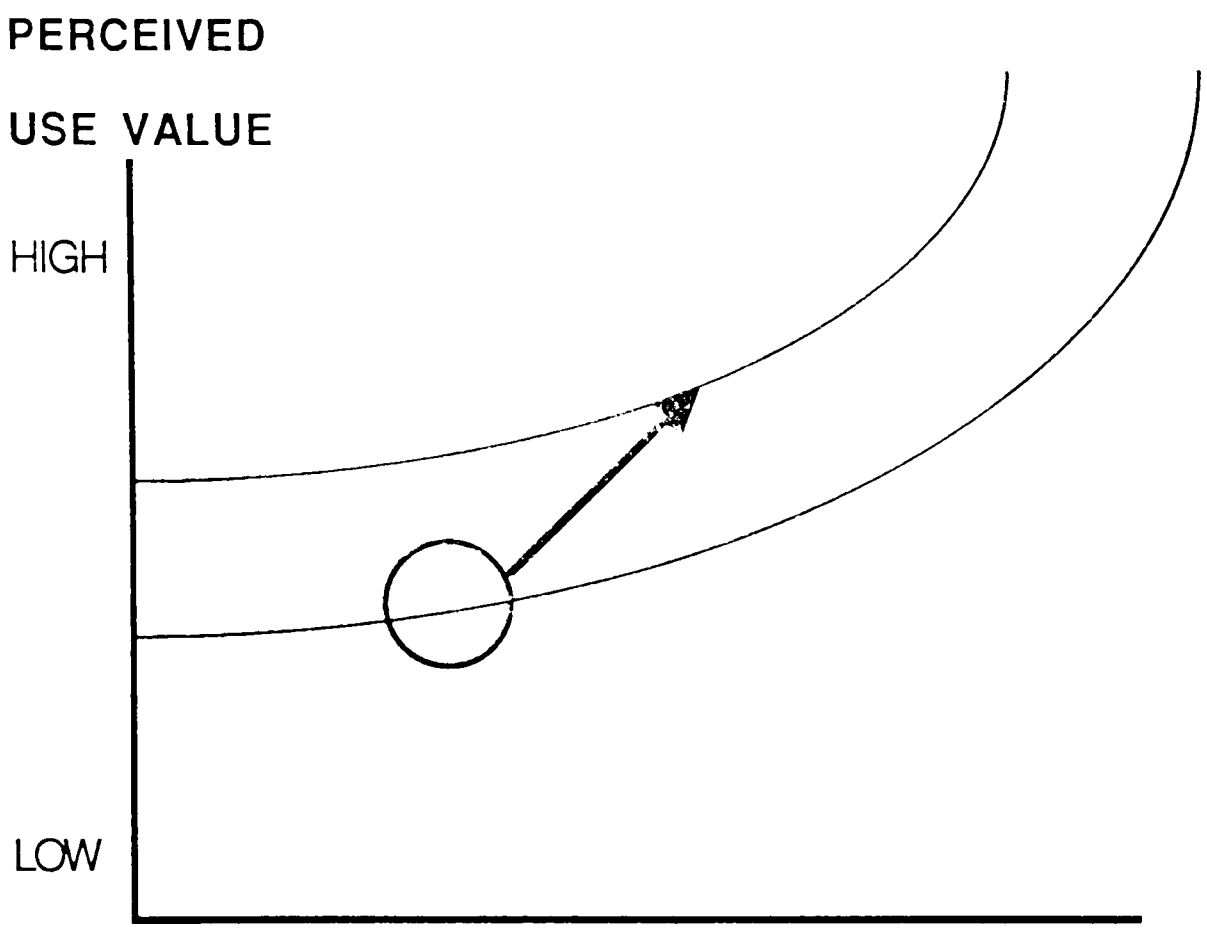


FIGURE 5.10 OFFERING HIGHER PERCEIVED VALUE THROUGH PRODUCT INNOVATION

Segment B) would be occupied by Ford, Nissan and Fiat, the North East segment (Segment C) would be addressed by Mercedes and BMW. The appropriate analysis of Mercedes position would be to compare it to those firms whom their potential customers perceive as viable alternative suppliers of their needs.

Similarly, a move "down market" from serving Segment B, would pitch the firm alongside Hyundai, Lada, Proton, and Skoda. Again, the chart should be redrawn.

Thus for each segment of demand the consumers will perceive a set of possible suppliers of their needs. In addressing issues of competitive advantage, it is a firm's positioning relative to the consumers' perceptions of alternative suppliers that is important. Within each segment firms have to gain competitive advantage through either offering the same perceived use value at lower prices (the F4 thrust), or by offering higher perceived use value for the same (or only slightly higher) prices.

5.7.5 COMPETITIVE STRATEGY AND PROFITABILITY: F1 "Cost Control"

On their own, neither the move north (achieved through adding perceived use value), nor the move west (by offering equivalent use value at a lower price) will improve firm profitability. Delivering higher perceived value may increase costs (added features, more brand advertising); and price cutting may merely lead to eroded margins. For either thrust to lead through to improved profitability the firm must control costs. Without close cost control margins will be eroded (by price cuts in the case of F4; or by cost increases in the case of F5). Hence, in order to translate the higher market shares potentially available through competitive strategies F4 and F5 into superior profits, the firm must address cost control (the F1 thrust).

Clearly, efficient control of costs is essential for the F4 (compete on price) thrust. It has been argued above that, for this strategy to succeed the firm may well need to be the lowest cost producer in the industry, to enable it to sustain lower prices longer than the competition. However, cost control is nevertheless important to the firm pursuing the F5 thrust (adding higher perceived use value). Without vigorous control of costs the firm may be unable to convert market share gains into profits.

We have argued that the F5 (superior products) thrust does not involve premium pricing. We have also pointed out that examples Porter uses of successful differentiators are really examples of firms competing for particular, less price sensitive consumers. So a firm has to decide, firstly, what ground it wishes to compete on: ie. what is the target segment (Aaker 1989:91)? Having determined this, the firm then needs to decide how to compete in serving this segment: to compete on price, or through adding higher perceived use value. Either of these strategic thrusts will lead to increased share of this segment's consumers. The increased shares could be translated (indeed, should be translated) into lower costs than **the other firms serving this segment.** Thus it is quite conceivable that firms pursuing the F5 (superior products) thrust could also be the lowest cost producer of the firms serving this segment (Hill 1988). (Share gains should be translatable into scale and experience-based cost advantages). The connection between higher perceived use value and lower cost positions is supported by empirical research (Phillips, Chang and Buzzell 1983; Fine 1983; Buzzell and Gale 1987).

The combination of higher perceived use value and low costs would place the firm in a powerful competitive position, for, if the other firms were able to imitate their added perceived use value offerings, the first mover would be in a position to add yet more perceived use values, or, indeed, to cut prices. Either way, the competition would be placed at a competitive disadvantage.

In order to achieve sustainable competitive advantage through the F5 (superior products) thrust the firm must maintain a positive gap between itself and its competitors (as perceived by the consumer). Moves north that can be readily imitated confer only temporary competitive advantages. Indeed, if competitors are able to imitate at lower cost than the innovator, the innovator may end up with a relatively lower profitability. Once the move north has been copied, it becomes the new "norm", or average perceived use-value, in the industry; the improvement in service or quality ceases to confer competitive advantage:

"A skill that all competitors have will not be the basis for a sustainable competitive advantage." (Aaker 1989:98)

To sustain the gap between its position and the positions of competitors, the firm must either delivered sources of perceived use value that are very difficult or costly to imitate (thus preserving a "static" gap), or the firm must continually add perceived use value to keep one jump ahead of the competition (preserving a "dynamic" gap). The pace and frequency of innovation will vary between industries (Miller 1988:284) But, clearly, if two or more firms are aggressively pursuing the F5 strategy, then there is likely to be a continual "ratcheting" upwards of the average acceptable perceived use value in the industry, as each firm attempts to leap-frog its rivals.

F1 (Cost Control) by itself would not lead to any perceived shift (from the consumers' perspective) in the firm's position in Figure 5.6. Firms in this position may achieve good profit performance so long as other firms locate around the same space (ie offer similar perceived use value, and charge similar prices). Firms pursuing cost control alone are vulnerable to competitors moving west (through price cuts), or north (through improvements in perceived use value). The cost control orientated firm may be better able to respond to price cuts than to value improvements. This could result from an excessively

internally focussed management team, and through rigidities in the organization that have resulted from the development of a cost efficient structure (de-skilling, automation, proceduralisation, centralisation of decision making, elaborate hierarchies).

Hence, it may well be the case that the pursuit of cost control to excess may detract from the firm's ability to add perceived use value. Thus, when a competitor moves north the cost control orientated firm may be unable to respond. As other competitors move north to match the superior perceived use value offerings of the innovator, the cost control firm is left behind. It is now offering lower perceived use value at the same prices as the competition. This is not a sustainable market position. If moves north are too difficult, the firm may find itself cutting price just to stay in the market. This reactive price cutting strategy may be viable (if their is a segment, as yet unserved, that values this combination of lower than average value combined with lower prices). But the dangers are that this move merely temporarily postpones the decline of the firm (Miller and Friesen 1986b).

5.8 DERIVING PROPOSITIONS FROM THE THEORY

Three propositions are suggested by this approach:

P1 Firms competing on price that are also controlling costs will perform better in terms of profitability than firms pursuing price competition alone (the F4+F1 combination outperforms F4 alone)

Although the combination of higher perceived use value (F5) and cost control (F1) should produce outstanding profit performance, it may be that the pursuit of these two thrusts simultaneously would lead to neither of them being achieved (due to conflicting

demands on the organization, Porter 1985). This suggests the following proposition:

P2 Firms trying to provide higher perceived use value, whilst simultaneously trying to rigorously control costs, will perform less well than those firms concentrating exclusively on adding perceived use value.

Firms that are combining both competitive thrusts (F4 and F5) would be moving "northwest" in Figure 5.11. This combination should lead to good relative sales performance, provided the firm's competitors are not doing the same.

P3 Firms competing by offering superior products/services and lower prices will perform well in terms of relative sales

5.8.1 EXPLORING THE PROPOSITIONS

To properly investigate these propositions would require a dedicated study. However, from the SBU database it is possible to gain some insights into the strategy and performance relationships set out in the propositions.

In order to investigate these propositions the SBUs were categorised thus:

* if the SBU had a mean factor score that was positive and it exceeded :

1.96 * ((Standard Deviation)/ (Square Root N))

(N = number of respondents from the SBU)

the SBU was categorised as pursuing this orientation.

* SBUs were then grouped in appropriate combinations to test

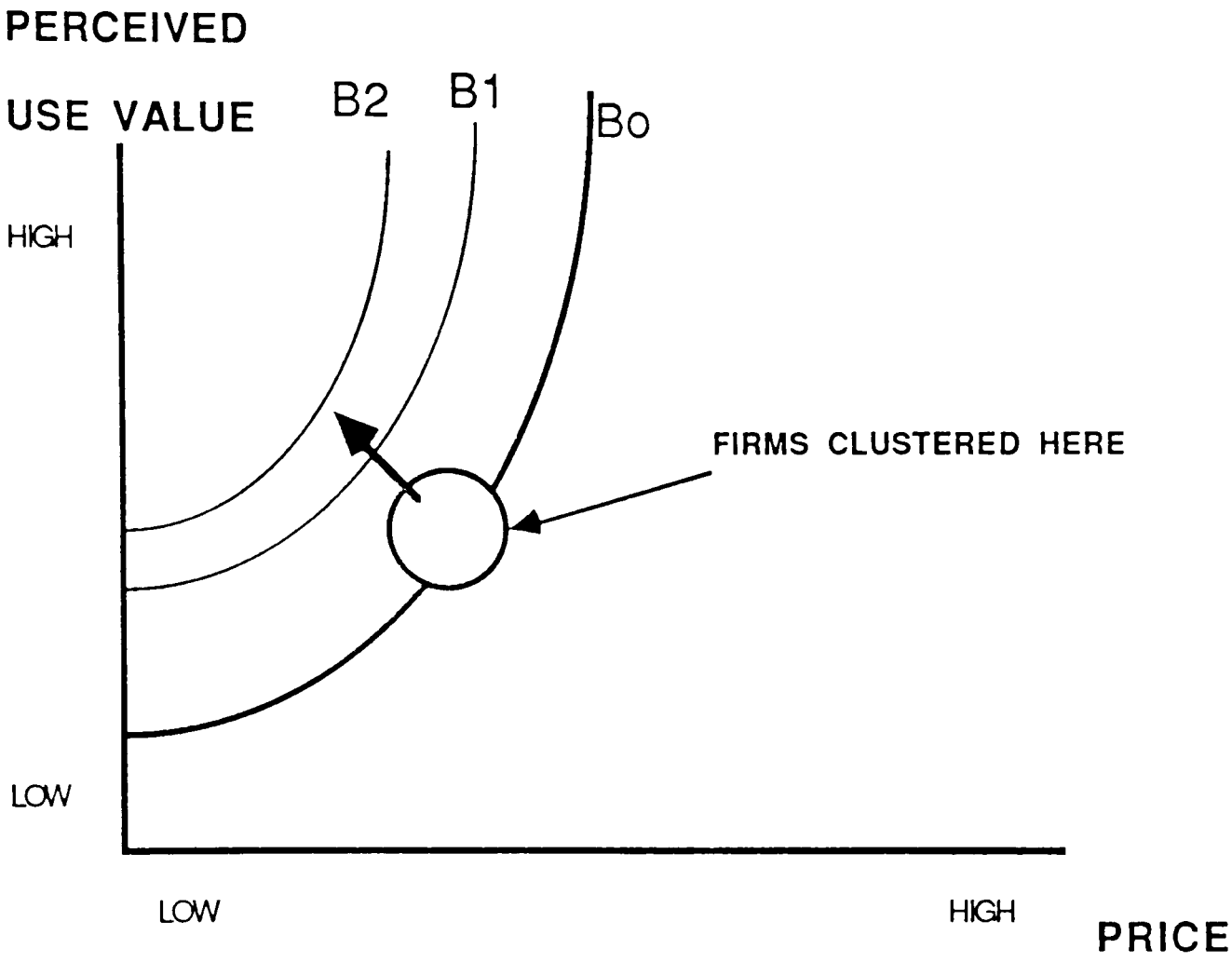


FIGURE 5.11 COMBINING HIGHER PERCEIVED VALUE WITH LOWER PRICE

each proposition.

P1 Firms competing on price that are also controlling costs will perform better in terms of profitability than firms pursuing price competition alone (the F4+F1 combination outperforms F4 alone).

13 SBUs were grouped as competing on price (Factor 4). Of these six were also in the "cost control" (Factor 1) group. Comparing the mean profit performance of those SBUs that were, and those that were not emphasising cost control did not produce a statistically significant result ($p=0.215$). However, the mean profit performance for the cost control SBUs was 3.98, compared to those not emphasising cost control of 2.99. There would, then, appear to be some support for the proposition.

P2 Firms trying to provide higher perceived use value, whilst simultaneously trying to rigorously control costs, will perform less well than those firms concentrating exclusively on adding perceived use value.

The mean profit performance for the group of SBUs that were pursuing a strategy of offering superior products/services without emphasising cost control was higher than for those SBUs seeking to combine the two thrusts. (Factor 5 alone: 4.43; Factor 5 and Factor 1: 3.188; $p = 0.06$). Thus the proposition is supported.

This would suggest that there are clear choices that have to be made in organizations. An SBU's competitive strategy can be compromised if there is an overemphasis on cost control. It seems that organizations cannot easily manage two strategic thrusts simultaneously if they have quite different orientations: the drive to control costs encourages managers to look inside the organization; trying to add perceived use value requires the management to focus their attention outside the organization,

towards customers and competitors.

Thus, one of justifications offered by Porter in support of the generic strategy concepts is supported here. Managers need to make a choice to avoid being "stuck-in-the-middle". But in Porter's approach the choice was between being the lowest cost producer, and being a premium priced differentiator. In the case being argued here the choice is between offering superior products or services (with the management having a strong market/ customer needs orientation), or trying to control costs (but not trying to be the lowest cost producer in the industry). Thus the strategic alternatives are not so obviously dichotomised.

This would suggest that, from a managerial perspective, there are risks attached to a strategy that tries to combine a competitive strategy which is based on offering superior products with a strong cost control thrusts. It could be that cost control priorities "drive out" or override priorities concerned with providing superior products or services. Experience gained through conducting strategy workshops with TMTs for a variety of SBUs (explained more fully in Chapter 6) indicates that managers are much more comfortable with inward-looking, measurable, controllable cost orientated strategies, than they are with outward-orientated, customer focussed competitive strategies. If this is a general problem, a "dual" strategy that combines both orientations runs the risk of the cost orientation predominating.

P3 Firms competing by offering superior products/services and lower prices will perform well in terms of relative sales.

Only 2 SBUs combine Factor 5 with Factor 4 (see Figure 5.12). Hence this potentially successful (in relative sales terms) combination of strategic thrusts is not commonly realised in the sample of SBUs. SBUs tend to opt for either going "north" (adding

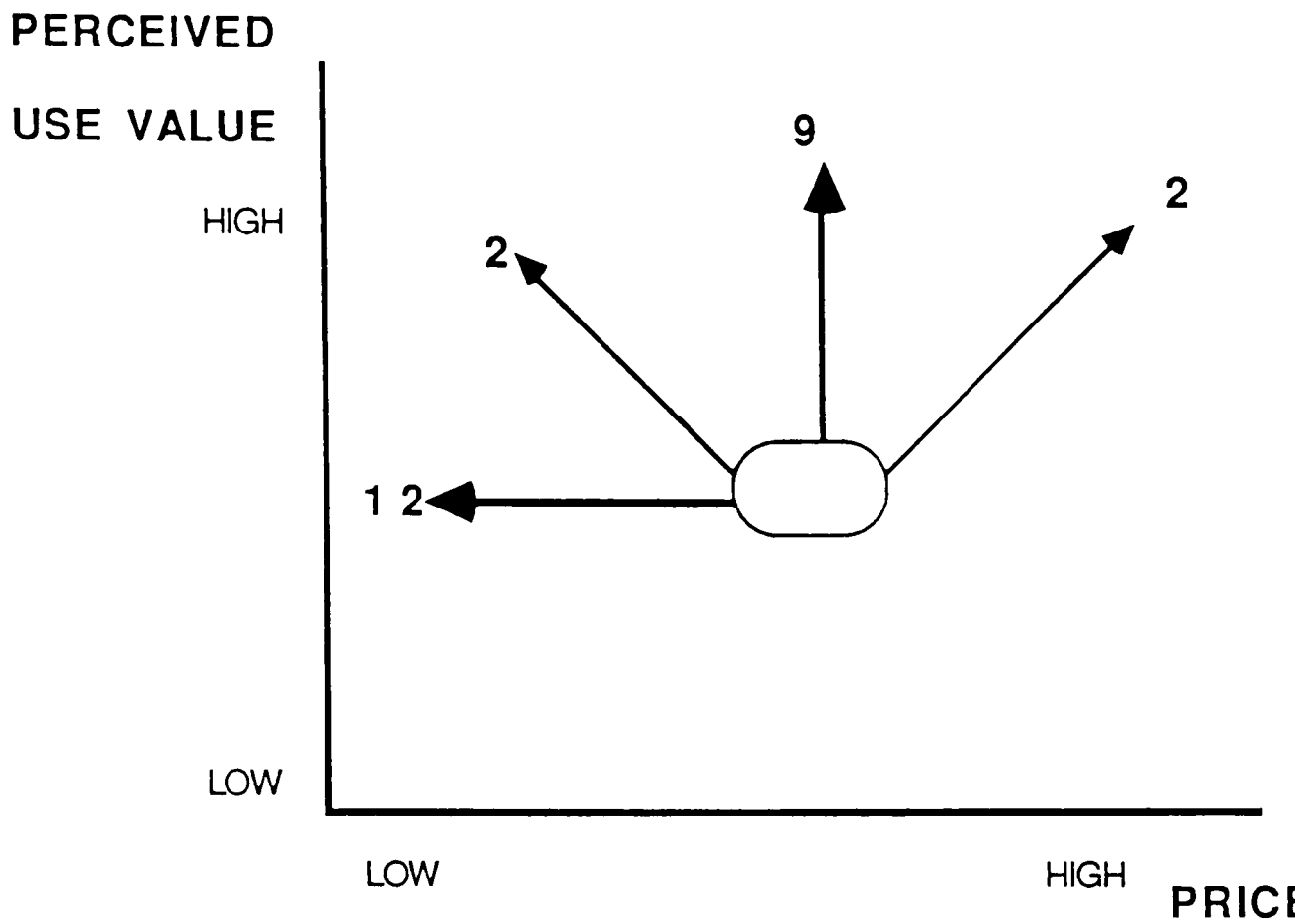


FIGURE 5.12 REALISED STRATEGIES FROM THE SBU SAMPLE

perceived use value), or going "west" (competing on price). This finding can be explained as follows:

* by adding perceived use value, the firm does not need to cut price in order to maintain or improve its market position.

* as argued above, firms competing on price may not have proactively opted for this strategy. They may be forced to cut price because they are unable to compete by offering better perceived use value. Hence the organizational circumstances that have led to the need to compete on price are unlikely to coexist with perceived priorities to enhance the value of the products/services being offered.

5.9 CONCLUSION

Although the questionnaire was constructed around Porter's Generic Strategies, the exploration of the five factor "solution", based on the questionnaire data, has provided some useful developments in our understanding of competitive strategy. The five factor solution has been developed into a "managerial theory" of competitive strategy. I have used this approach with management groups instead of the Porter approach with a good deal of success. The framework can be developed to raise important issues about competitive strategy in discussions with management groups, in ways that managers find easy to relate to. In particular, the framework can encourage debates about:

* the attractiveness of competing on price, and how to sustain advantage through a price competitive strategy

* problems of adding perceived value, and the need to understand what it is that our target customers do value (and how these values may be changing)

* how moves "north" can be imitated, and the effects that this process has on ratcheting upwards consumers minimum acceptable quality standards

* how firms can sustain advantage by moving "north" (adding perceived use value), through multiple sources of difference, a tailored organization, and through product innovation

* issues about segmentation: deciding which ground to compete on before determining how to compete

* the need to control costs regardless of the route to competitive advantage adopted

* the consequences of not moving north, or west

* how to enter new markets and gain competitive advantage

Thus this theoretical framework derived from managerial perceptions provides a valuable vehicle for strategy debate.

However, the five factor solution emerged from the Porter based questionnaire. If managers were not constrained by these statements they may well reveal a different set of realised strategy types. This opportunity is discussed further in Chapter 7.

CHAPTER SIX

ISSUES IN GROUP PERCEPTIONS OF STRATEGIC PRIORITIES: FUNCTIONAL BIAS, INDUSTRY RECIPES, AND STRATEGY DEBATES

6.1 INTRODUCTION

It was argued in Chapter 1 that managers interpret stimuli through a perceptual process (see Figure 6.1). Stimuli emanating from within the organization, or from outside the organization, are classified and categorized to facilitate interpretation (Stubbart 1989; Hambrick and Mason 1984). It has been argued that the cognitive frameworks that managers use in this interpretive process are not purely individual phenomena (Beyer 1981). The sets of beliefs and assumptions that comprise these organization-level frameworks have been variously referred to as "myths" (Hedberg and Jonsonn 1977), "paradigms" (Sheldon 1980; Johnson 1987), and "cognitive systems" (Daft and Weick 1984).

Huff (1982) argues that a manager's strategic concepts derive from experience, and that a manager is influenced by not only the organization but also by the particular industry context, and the general industry context in which he or she gathers experience. Huff argues that the industry provides a repertoire of possible strategic frameworks, providing models of outstanding success (or failure), or of mould-breaking strategic moves. But, more significantly she argues that the industry context provides a worldview which informs strategy making within the industry. These "meta-strategic" (Huff 1982:125), often implicit, assumptions are the shared beliefs which constrain strategic

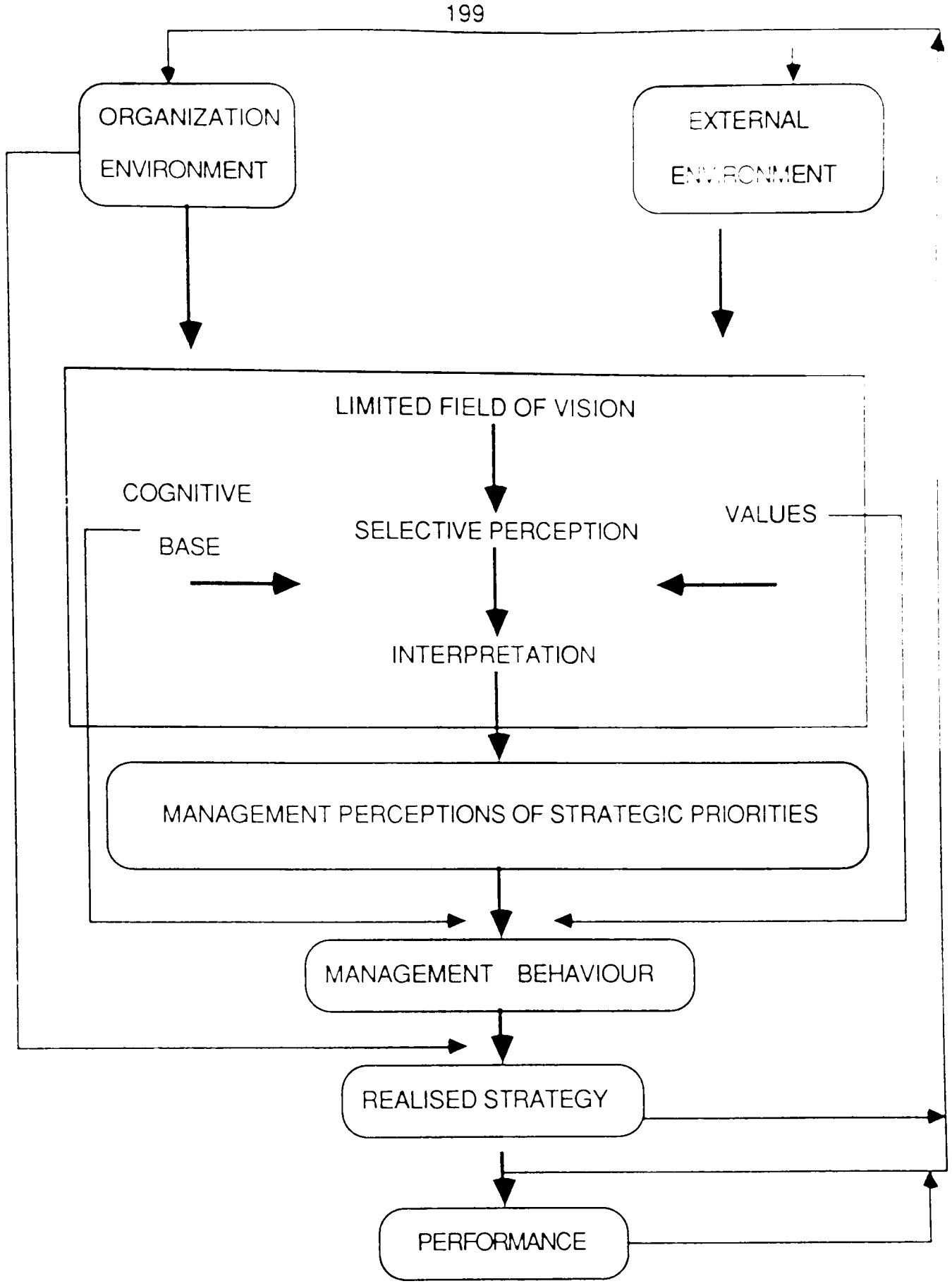


FIGURE 6.1 PERCEPTIONS OF STRATEGIC PRIORITIES AND REALISED STRATEGY

thinking within the industry.

Calori, Johnson and Sarnin (1991) develop this approach by adding two other sources of influence: the strategic group (within Huff's "industry group" 1982:124) and the country in which the firm is based. Thus there may be overlapping frames of reference that operate at the organizational, industry and country level.

Most managers gather their experience from within a particular function. They may move between organizations within the same industry but remain in the same function. Indeed, it is possible for some managers to move between industries but to remain working in the same function (eg. accountants, sales managers). It is likely, therefore that the most stable source of influence in shaping managerial cognitions for some managers is the function, rather than the organization, the industry or the country context. Therefore an additional source of influence could be added to the extended Huff (1982) model (see Figure 6.2).

Studies that have sought to explore the existence and strength of the different sources of influence that shape managerial cognitive structures have tended to focus on cognitive maps or schemas (Huff 1990; Calori et al 1991). These maps are attempts to represent the set of constructs that are perceived by managers to be significant, and the links between these constructs. The emphasis is more on the understanding of cognitive processes. This present study focusses on managerial perceptions of a limited set of generic strategic, business level priorities. Thus the data refers more to the outcome of cognitive processes, rather than to the processes themselves. However, we have an opportunity to explore three sources of influence on managers using the manager database:

* the influence of the manager's present function

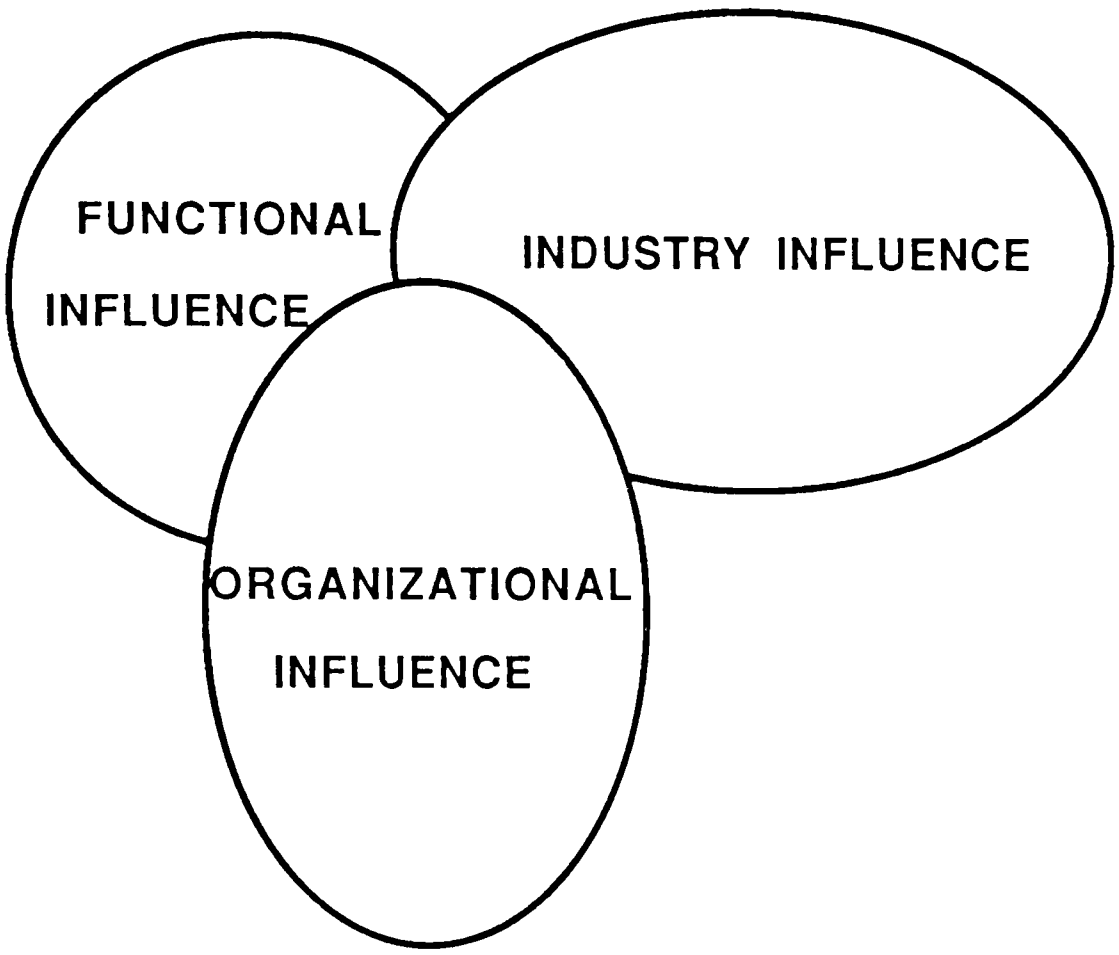


FIGURE 6.2 Sources of Influence on Managerial Perceptions of Strategic Priorities

* the influence of the industry

* the influence of the firm

The firm level of influence has been addressed in Chapter 4. Where firms displayed a high level of consensus about a set of strategic priorities it could be argued that the firm level of influence is strong. In this chapter we examine a limited number of firms in some detail. Firms have been selected that either provide interesting examples of patterns of managerial perceptions, or are ones where the surfacing of managerial perceptions played a significant part in advancing the strategy debate within the top management team (Bowman and Johnson 1991).

In order to explore function influence the manager database has been used to isolate groups of managers from the same function, but from different firms. The industry level of influence is addressed by grouping managers from within the Regional Newspaper industry. Function influence and industry influence are identified by comparing the perceptions of the function, or industry grouping with all other managers in the database.

6.2 FUNCTIONAL BIAS IN PERCEPTION OF STRATEGIC PRIORITIES

Structural differentiation (Lawrence and Lorsch 1967), and horizontal specialisation (Mintzberg 1979) have been important aspects of research into organizations for many years (Miller 1987). Highly differentiated structures are required to cope effectively with complex environments, but they require sophisticated integrating devices to coordinate activity across the organization (Mintzberg 1979; Galbraith 1973). In highly

differentiated structures managers from different functions will develop particular priorities, and may work to differing time horizons (Lawrence and Lorsch 1967). Mintzberg explains that:

"Functional structure ... encourages specialisation, for example, by establishing career paths for specialists within their own area of expertise, by enabling them to be supervised by one of their own, and by bringing them together to encourage social interaction" (Mintzberg 1983a:59)

These processes and influences are likely to lead to managers from different functions within the organization perceiving different priorities. Mintzberg goes on to argue that:

"The emphasis on narrow specialty detracts from attention to broader output. Individuals focus on their own means, not the organization's broader ends." (Mintzberg 1983a:59)

Dearborn and Simon's (1958) study into managerial perceptions concluded that "each executive will perceive those aspects of a situation that relate specifically to the activities and goals of his department" (Dearborn and Simon 1958:142) and that "the criteria of selection [used by executives] have become internalized" (1958:143). Newman (1988) suggests that department managers tend to think in limited scope, and for a relatively short time span.

Hambrick (1987) points out the problems if the Top Management Team share the same functional background:

"The CEO....concluded that his team of highly analytic, engineering educated managers (including himself) were at a loss in comprehending and anticipating a new environment unfolding around them....The CEO complained, 'We're typical engineers. We wait for data to become clear, firm, and graphable. By the time that happens, today's competition has passed us by.'"

(Hambrick 1987:95)

A distinction has been made between horizontal specialisation and vertical specialisation (Mintzberg 1983:26-8). In addition to functional specialisation (horizontal), managers at different levels of the organization may have different perceptions of strategic priorities. For example, Ireland et al (1987) argue that the mental representations managers have of the world will probably be historical in nature, and the historical experiences on which they are based will vary across management levels (Ireland, Hitt, Bettis and de Porras 1987).

Hambrick (1981) has confirmed a decline in "strategic awareness" at descending levels of the managerial hierarchy; middle managers were less aware of their firm's strategy than were top managers. Therefore, the perceptions of a middle manager within a function are likely to be influenced by both his functional experience, and his position in the vertical hierarchy. (The influence of hierarchical level on perceptions of strategic priorities is not explored here, but it would add a further dimension of influence that could be the subject of future research).

Managers are likely to pay more attention to more recent events, and the salience of information (Kiesler and Sproull 1982) will also influence the extent to which information becomes incorporated in the managers "schema". As a result, Ireland et al argue that "technical-level" managers will perceive different strength and weakness indicators from top level managers (Ireland et al 1987:473).

Stevenson (1976) concluded that "position in the organization, perceived role, and type of responsibility" influence the assessment of strengths and weaknesses (Stevenson 1976:55), an outcome supported by Ireland et al (1987). Hambrick (1981a) argues that the role of a function in coping with the organization's critical contingencies is positively related to

power, hence, functional influence is likely to be differentially weighted according to the organization's circumstances.

Walsh (1988), in his attempt to replicate and extend Dearborn and Simon's research, argues that exposure to a department's goals and activities is likely to shape a manager's conception of organizational success (Walsh 1988:875). And

"Given that belief structures define individual's domains of attention and structure experience, manager's problem identification in an ill-structured decision situation should occur within the bounds of their belief structure's content...[he hypothesises that] In ill-structured decision situations, managers are only likely to identify problems that are from the same functional domain as the content of their belief structures" (Walsh 1988:876)

Walsh (1988) tests this and other hypotheses using a similar methodology to that used by Dearborn and Simon (1958). However, his results only offer some "marginal support" for this hypothesis, and Walsh concludes that management scholars have too readily seized upon the "simple minded view of the simple minded manager", and that the managers in his study did not "emerge as simple minded information processors" (Walsh 1988:891). He adds that:

"The fact that Dearborn and Simon's evidence of selective perception is still so often cited reflects a good deal of concern about the effects of cognitive simplification on the practice of management" (Walsh 1988:891)

In interpreting Walsh's findings it is important to take into account one important methodological weakness in his research that stems from the sample of managers used. These were 121 managers who were attending a university-based executive masters degree program. Walsh's conclusion that "few managers viewed their organizational worlds along narrow functional

criteria" (Walsh 1988:887) cannot be reasonably generalized to other groups of managers who are not in the special circumstances of his sample group. Indeed, it would be worrying and disappointing, if, after some time on such a development programme, these managers did **not** take a broader, non-functional perspective of the case they were asked to analyse (Walsh 1988:878). This would suggest that, a more representative sample of managers, that were not singled out by their organizations for special executive development (Walsh 1988:890), may produce more generalizable results.

Ireland et al (1987) suggest that research could usefully be conducted into the influence of managerial function on perceptions of strengths and weaknesses (Ireland et al 1987:482). Strength and weakness analysis often forms part of the analytical phase of strategic planning. Strategic priorities, the focus of this current research, can be conceived of as outcomes of strategic analysis (or they may emerge from other processes, as explained in Chapter 1).

It has been argued earlier (Chapters 1 and 3) that strategic priorities are a "super-functional" construct, associated not with the day-today concerns of particular functional managers, but with the overall thrust of SBU competitive strategy. In this way, it is conceivable that managers across a functionally structured SBU could perceive the same strategic priorities pertaining to the SBU as a whole, whilst, at the same time, they may perceive quite different functional priorities. The arguments advanced concerning the benefits of consensus (Chapter 2) centred on the advantages stemming from the alignment of managers from different levels and from different functions about a set of strategic level priorities.

In their influential study, Lawrence and Lorsch (1967) identified goal orientation as one of four dimensions of structural differentiation. They concluded that high performing organizations coped with environmental uncertainty through

having highly differentiated structures combined with effective integrating mechanisms. Within functions the goal orientations were as they predicted (eg sales concerned with customers. competitors activities; production concerned with cost reduction and process efficiency). Integration was achieved across the differentiated functions through effective procedures, practices, and attitudes; confronting differences and conflicts between functions proved to be more effective than smoothing over them.

These findings could be interpreted as arguments against consensus. That, for an SBU to be effective it is necessary for each function to pursue its own goals, without diluting or diverting effort by moderating these priorities. Integration devices and activities (Mintzberg 1983a) will ensure that the disparate concerns of functional specialists are coordinated to achieve SBU level goals.

However, administrative scientists have long been "interested in understanding the kinds of work experiences that might preclude the development of the kind of functional area tunnel blindness observed by Dearborn and Simon" (Walsh 1989:11). And job rotation across the functional areas has been recommended as an antidote to "functional fixedness" (Katz 1982) and "strategic myopia" (Lorsch 1985:84).

The results of the present investigation into consensus reveal support for the positive effects of consensus on SBU performance (Chapter 4 Hypothesis 8). Consensus about positive strategic priorities is related to SBU performance.

In explaining this relationship it could be argued that agreement across functions about SBU level priorities acts as an integrating or coordinating process (Mintzberg 1989:101). Lawrence and Lorsch (1967) refer to "integration" being effected through various coordinating mechanisms . Using Mintzberg's (1989:101) terminology, these would be: mutual adjustment (integrating committees/teams, informal communication

channels), standardization of work processes (control and scheduling procedures), and direct supervision (the "chain of command').

Subsequent to his major work on structure (Mintzberg 1979) which refers to five coordinating mechanisms, Mintzberg has added a sixth, standardization of norms (Mintzberg 1989:101). Here the intention is to integrate activity through everyone functioning according to the same set of beliefs. Walsh (1988) comments, in explaining his results (which appeared to contradict those of Dearborn and Simon 1958) that:

"...there was a chief financial officer with a manufacturing belief structure, an assistant marketing manager with an accounting-finance belief structure, and a supervisory engineer with a marketing belief structure. Perhaps these managers are in the wrong jobs or **work in companies with strong cultures that have supplanted the traditional functional orientations of their jobs.**" (Walsh 1988:888)

Thus Walsh is suggesting that in these cases the organizational influence plays a stronger role in shaping belief structures than functional influence; functional biases may have been supplanted by the "standardization of norms" (Mintzberg 1989).

The deliberate shaping of values and beliefs has become an increasingly explicit strategic management process (Peters 1987:399); "visions", "missions" and statements of values are becoming an important part of the strategic management repertoire. A strongly articulated mission statement, reinforced by observable top management behaviour, can, it is argued influence management perceptions across the organization (see the case examples below). In this way, high level integration of activity across functions can be achieved within an SBU, without necessarily jeopardising the benefits of within-function goal specialisation. In order for this to be achieved it would indicate that the values and priorities signalled by the "mission" must

have cross-functional relevance, whilst at the same time, be interpretable through within-function activity. Priorities to do with cost control, and customer service, could, for example, serve these dual purposes if they were perceived to be pertinent across the SBU. Cost control can be interpreted within each function, and actions can be taken in line with this priority. The shared priority of cost control should also help to coordinate interactions between functions. The same reasoning can be applied to customer service.

From this discussion two issues are raised which can be investigated through the analysis of the management database.

1) Do functional managers from different SBUs perceive similar priorities?

2) If there are systematic biases in perceptions within functional groupings across SBUs, are these biases of strategic level priorities linked to functional concerns?

6.3 TESTING FOR FUNCTIONAL BIAS IN PERCEPTIONS OF STRATEGIC PRIORITIES

To explore these questions the managerial database was investigated to identify three groups of functional managers: managers in a finance, or an accounting position; those from production or operations; and those from sales and marketing positions. The selection of these functional groups is in line with Dearborn and Simon (1958), and they represent Miles and Snow's (1978) "output" functions (marketing and sales), "throughput" functions (production), and Hayes and Abernathy's peripheral functions (finance/accounting) (Hayes and Abernathy 1980).

[The few company secretaries in the database were included

with the finance/accounting group, as it was conceivable that the a priori explanations of bias amongst accountants (their training, their position in the organization) may also apply to company secretaries.]

In contrast to the sample used by Walsh (1988) these managers were not on an executive masters degree programme. The managers generally completed the questionnaires prior to their involvement in any management or strategy development programme. And most of the subset of managers that comprised the SBU database (600 of the 1109 managers) were not involved in any management or strategy development programme either before or after completing the questionnaire. Thus the sample would appear to be more representative of the population of managers than that used by Walsh (1988). Hence it would be reasonable to suggest that the results of analyses based on this sample would be more generalizable to the wider management population.

The managers are classified according to the functional position that they held at the time of completing the questionnaire. Although there is a strong likelihood that the managers would have spent some years in the function, it cannot be ruled out that some managers may have only recently gained any experience in the particular function.

6.3.1 FINANCE/ACCOUNTING MANAGERS

In order to identify managers for the finance/accounting group the manager database was examined. Where a manager identified his function as solely either finance, accounting or company secretarial he or she was allocated to this group. This excludes those managers that identified their roles as combining one of these functions with, for example, personnel, or administration.

For each group the mean ratings for the 21 statements in the

questionnaire were compared with all other managers in the database. The differences between means were tested for significance.

The mean ratings for this group (numbering 62 out of the database of 1109) were compared to the "non-accountant group" (1047). The means for the accountants group were significantly different (at the p = 0.05 level) from the other managers on seven of the 21 statements:

Statements Rated Significantly **Lower** By Accounts/Finance managers:

2. The strategic direction we are now pursuing represents a significant change from that pursued in the past

14. Currently, we are trying to operate this business in significantly different ways to those we have in the past

16. The organizational structure and/or processes we are now using represent a noticeable change from our recent past

7. We regularly develop new products/services, or significantly change the line of products/services we offer

9. We try to offer unique products/services enabling us to charge premium prices

15. As our customers are very price sensitive, we devote considerable
time and effort into improving efficiency

18. We aim to offer superior products/services to those of our competitors

The following statement was rated Significantly **Higher** by Accounts/Finance Managers:

20. We try to operate this business in much the same way today as we have in the past

In general, then, compared to other managers, the accounts/finance managers perceive that their SBUs are experiencing less change (in strategic direction, business processes, new product development, structures and processes). They also perceive, compared to other managers, in terms of the the statements supplied to them in the questionnaire, that their SBUs are not striving for product/service superiority, nor are they in pursuit of efficiency.

These findings would suggest that the particular experiences of the accounts/finance managers have resulted in them forming different perceptions of their organizations to those of other managers. The accounts/finance managers perceive both differentiation and cost statements lower than their colleagues. On all but one of the strategy related statements the accountants had lower mean scores (the exception was Statement 13: "We carefully monitor operations to keep our costs under control").

In seeking to explain these results, it could be argued that finance and accounts managers, and company secretaries, are somewhat remote from the operational imperatives of the business. Hence, their low rating of statements concerned with competitive strategy may reflect their true perceptions of the organization's strategic activity. It may be that their relative isolation from the day-to-day concerns of their colleagues in, say, production, or sales result in their not perceiving strong priorities, other than the monitoring of operating costs (for which the "accountants" have a slightly higher than average mean score).

This explanation is supported by this group's above average perception of organizational stability. The "accountants" rate Statement 2 (Change in strategic direction), Statement 7 (regular new product development), Statement 14 (Change in business operations), and Statement 16 (Change in structures and processes) all significantly lower than the other managers in the database (at the p=0.05 level). Furthermore, Statement 20 ("We try to operate this business in much the same way today as we have in the past") is scored significantly higher than the other managers by the "accountants" (at the p=0.05 level).

The perception of lower levels of change (compared to other managers) may support the suggestion that the "accountants" are somewhat removed from the centre of the business. Managers from other functions are perceiving change, but change is not impacting to the same extent upon the accountants' perceptions.

These results indicate that there is evidence of functional bias across a mixed group of SBUs (of different size, and industry). The direction of bias may be explained by the particular roles accounts/finance managers play in most SBUs. They are usually occupying "staff" positions (they may be "support staff" or members of the "technostructure" (Mintzberg 1983a)), which distinguishes them from "line" managers (for example, production or sales managers). Both technostructure activities, and support staff activities are removed from the "operating work flow" (Mintzberg 1983a:15). Hence the experiences of managers who advance their careers in these non-line functions are likely to be different from those from the line (those from the "operating core", the "middle line" and the "strategic apex" Mintzberg 1983a).

We shall now explore the perceptions of the first of the two groupings of "line" managers: the production and operations managers.

6.3.2 PRODUCTION AND OPERATIONS MANAGERS

Managers from production functions were identified, and a similar comparison of means to those for the accounts managers, was undertaken. Managers who described their positions as either production director/manager, works director/manager, or manufacturing director/manager were identified in the database, and grouped.

Of the strategy related statements the production managers had ten means that were higher than the non-production group, and five that were lower. Six of the ten higher means were statistically significant (at the p=0.05 level), and they all relate to cost control, and price competition (statements 1, 5, 6, 11, 19, 21).

An instrument has been developed assist in the interpretation of these results: the "Strategy Fingerprint". This device reflects the "managerial theory" of competitive strategy developed in Chapter 5. This "Strategy Fingerprint" groups the statements according to the Five Factor solution explained in Chapter 5 (ie Cost control, Compete on price, Superior products, New product development, and Change). For each statement the mean is plotted, and the standard deviation for each statement is also recorded. In this way agreement about particular statements can be noted (ie a low standard deviation, a rule of thumb would be less than 1.0, indicates that most managers rated the statement close to the mean).

The scales used to plot the SBU means on the fingerprint have been adjusted to locate the mean from the whole management database at the middle line. In this way the interpretation of statements that were rated generally high, or low, in the management database (eg Statement 1, and Statement 19) is facilitated. The Production Managers have been plotted on a Strategy Fingerprint, and their means can be compared with the

FIGURE 6.3 PRODUCTION MANAGERS' PERCEPTIONS

SIGNIFICANT DIFFERENCES (P=0.01)		MEAN SCORE
	S18 Superior	1 2 3 4 4.5 5
	S17 Sales info	1 2 3 4 5
	S3 Distinctive	1 2 3 4 5
	S9 Unique	1 2 3 4 5
•	S21 Comp/Price	1 2 3 4 5
•	S11 Comm/Price	1 2 3 4 5
•	S19 Low Cost	1 2 3 4 5
	S15 Sensitive	1 2 3 4 5
•	S6 Supply	1 2 3 4 5
	S8 Capacity	1 2 3 4 4.5 5
•	S5 Overheads	1 2 3 4 4.5 5
	S13 Monitor costs	1 2 3 4 4.5 5
•	S1 Operating costs	1 2 3 4 4.5 5
	S7 Reg NPD	1 2 3 4 5
	S10 NPD priority	1 2 3 4 5
	S9 Unique	1 2 3 4 5
	S14 New ops	1 2 3 4 4.5 5
	S2 New direction	1 2 3 4 4.5 5
	S16 New structure	1 2 3 4 4.5 5

PRODUCTION MANAGERS: OTHER MANAGERS:

Note: The five-point scales have been adjusted to reflect the mean scores for each statement for the database as a whole. The middle line approximates to the database mean for each statement.

means for all the other managers in the database (See Figure 6.3).

These results would suggest that production managers' perceptions of SBU level strategic priorities strongly reflect their functional concerns. These managers perceive strong priorities to control costs, and they also perceive that, compared to other managers, their customers are price sensitive. Production activities generally lend themselves to direct measurement and control of costs. Similarly, measures of output, productivity, capacity utilization tend to well developed in most manufacturing SBUs. Indeed, one of the major responsibilities of the technostructure is to devise ways to monitor and control production activities (Mintzberg 1983a:15). Non-line functions like R & D, or training, are not likely to be subjected to the same perpetual cost scrutiny as production, firstly because these non-line functions are not likely to form a substantial component of a typical manufacturing SBU's costs, and secondly, because systems for measuring productivity in these areas are not well developed.

For these reasons, production managers are more likely to experience cost pressures than non-production managers, which would in turn, influence their perceptions of SBU strategic priorities.

6.3.3 SALES AND MARKETING MANAGERS

A third group of managers, those from sales and marketing functions, was also identified, and the means compared with all other managers. It could be argued that, if managers perceive strategic priorities that are in line with functional goals, then statements concerned with superior products, and uniqueness would be emphasised by sales and marketing managers.

The "sales" manager group (170 managers) had only two means

that were significantly different (at the p = 0.05 level) from all other managers: these were Statement 17 ("Information about sales performance is considered to be more important than cost control information"), and Statement 18 ("We aim to offer superior products/services to those of our competitors"). In both cases the "sales" managers had means that were higher than the other managers (significant at the p=0.01 level).

The result for Statement 17 (Sales performance information) would be expected. These managers are more likely to feel the pressure to meet sales performance targets, than cost control targets (cf the production managers). The higher mean for Statement 18 would support a view that sales managers perhaps believe that the products/services being offered by their SBUs are superior; without some conviction they may well perform poorly, and be unable to lead their sales teams effectively.

These possible links between functional responsibilities and experience, and perceptions of strategic priorities suggest areas for further study. In particular, whether bias in perceptions helps or hinders the implementation of SBU strategy. As explained earlier, the position argued in Chapter 2 in support of the benefits of "consensus" (ie no significant functional bias) involved the supposed advantages of all managers, from all functions, perceiving the same broad strategic direction. This consensus, it was argued would, inter alia, help to reduce inter-functional conflicts, and misunderstandings, and thus facilitate the integration of efforts across the SBU.

However, the tentative findings from these tests would suggest that perceptions influenced by functional background may nevertheless be resistant to attempts to unify perceptions of SBU priorities (if, indeed, these attempts had been made). The day-to-day imperatives stemming from the subset of the organizational task allotted to a function may have more significance to managers than broader, SBU level exhortations. Furthermore, in the absence of any coherent SBU strategy,

parochial, functional concerns may loom largest in the perceptions of managers.

(One of the firms selected for more detailed exploration in the last part of the chapter (Case "C") is an example of functional bias **within** an SBU)

6.4 INDUSTRY INFLUENCES ON PERCEPTIONS OF STRATEGIC PRIORITIES

In this section we explore the concept of industry bias in perceptions of strategic priorities. The section opens with a brief discussion of industry bias, including some suggestions about how shared perceptions may emerge in an industry, and some of the consequences of strong shared perceptions. Then the SBUs from the Regional Newspaper industry are analysed to test for evidence of industry bias.

6.4.1 INDUSTRY "RECIPES"

As explained at the beginning of the chapter, the industry in which the manager gains his or her experience may be influential in the formation of cognitive structures used to interpret the world. Huff (1982) and Calori et al (1991) recognise the potential importance of industry context on shaping managers' perceptions.

Industry-wide patterns of belief have been referred to as "recipes" (Grinyer and Spender 1979). The "recipe" acts as "a powerful orienting framework, filtering the buzzing, blooming confusion of the world to admit only that believed relevant" (1979:117). The existence of a recipe could lead to strategies, at the business level, whose "fundamental rationality is shared within the industry" (1979:118).

Schwenk (1984) argues that managers use "heuristics" as cognitive simplification mechanisms, which are derived from, in part, industry experience. And Mazzolini (1981) suggests that the search for alternative solutions in strategic decision making is constrained by routines, guidelines and standard operating procedures. These "guidelines" may be shared across firms in the same industry.

Porac, Thomas and Baden-Fuller (1989) suggest that decision makers:

"construct a mental model of the competitive environment which consists minimally of two types of beliefs: beliefs about the identity of the firm, its competitors, suppliers and customers, and causal beliefs about what it takes to compete successfully within the environment which has been identified" (Porac et al 1989:399)

They go on to argue that because of indirect and direct imitative tendencies over time, the mental models of competing strategists become similar, thereby creating "group level" beliefs about the market place (Porac et al 1989:400). Indirect imitation occurs because strategists from different firms face similar technical/material problems with a finite number of solutions. Direct imitation occurs because of both formal and informal communications among the set of competitors. The result of imitation is that "the strategic choices of individual firms take place within the context of many shared beliefs about how and with whom to engage in transactions in the marketplace" (Porac et al,1989:400).

In explaining the processes of recipe formation Nisbett and Ross (1980) have suggested that decision makers are especially susceptible to one or a very few vividly described cases. These cases can play the role of exemplars or "prototypes" (Stubbart 1989). These descriptions may be far more influential in shaping

beliefs about how to compete in an industry than objective statistical data. Simplistic analogies, and rules of thumb, can have profound effects in shaping shared beliefs across an industry (Duhaime and Schwenk 1985).

For example, the TMT of an office equipment company (used as one of the cases in the final part of this chapter, Case C) reported a shared belief within the industry that there was a strong correlation between the number of salesmen a firm employed and market share. This relationship was summarised as the "feet on the street" effect. However, although there was no reliable statistical evidence to support the relationship, it seemed to be highly influential in shaping the competitive strategy of the firm (they hired more sales staff, and reduced staff in the service departments).

Mintzberg, Raisinghani and Theoret (1976) in their empirical study of strategic decisions, point out that, as a first course of action, decision makers search within their memories for solutions. Their memories are likely to contain examples of actions taken by themselves, their organizations or their competitors that are exemplars of what to do (and what not to do) to achieve success in their industry. And Alexander (1979) refers to "intuitively perceived and non-formalized constraints" which are applied before any alternatives (to the preferred option) are thoroughly explored (Alexander 1979:397; and also Mason and Mitroff 1981). Thus the limited search for alternatives, and the constraints of memory are likely to lead to decisions and actions that are in line with the industry recipe, and which then serve to reinforce the recipe.

In order for recipes to emerge there must be communication across firms in the industry. This can take a number of forms: trade associations; informal contacts between executives; frequent movement of managers between firms in the industry. Huff (1982) suggests that industry groups and other industry-

wide organizations provide organized sense-making forums. Gronhaug and Falkenberg (1989) explain that information about competitors is obtained by scanning business magazines and newspapers, through marketing intelligence, and through gossip.

Newman (1988) argues that functional specialists engage in sub-sets of the external environment. These "boundary spanning" activities include exploring the industry, markets and resources, learning about plans of rivals, and building informal industry networks (see also Mintzberg 1973, the "monitoring" role of the CEO). Newman (1988) suggests that:

"as functional activities become professionalized, departmental personnel may feel more congenial with people doing similar work in other companies than they do with peers in different departments of their own company....many [departmental managers] will take their values from the outside industry norms" (Newman 1988:6)

Thus formal and informal linkages established and maintained at the functional level across the industry can provide a conduit to enable industry norms and beliefs to be introduced, reinforced and changed. Mintzberg (1983) points out that, to those engaged in "professional" work:

"the organization is almost incidental, a convenient place to practice their skills. They are loyal to their profession, not the place they happen to practice it." (Mintzberg 1983:208)

Shared beliefs about, inter alia, how to compete in an industry can be developed and reinforced through many levels of "organizational functioning" (Neilsen and Rao 1987). The beliefs and assumptions can be incorporated in explicit plans and mission statements, they can be incorporated in informal discussions of intentions and actions, and they can take the form of unspoken (but conscious) prejudices and assumptions. Lastly, they may be buried deep, beyond the organization member's

awareness. Clearly, the more explicit the shared assumptions the more open they are likely to be to challenge and discussion. Johnson (1987,1990) refers to the importance of surfacing these beliefs in advancing strategy debates (see also Mason and Mitroff 1981). (This theme is taken up later in this chapter.)

Industry recipes are likely to emerge in stable industry environments, that are probably mature, and that may be regulated to some degree (Hambrick and Finkelstein 1987). The objective conditions in the industry may, in any event, severely constrain the strategy maker's ability to exercise choice (Aldrich 1979). Furthermore, perceived "configurations" of strategy, environment and structure variables (Miller, Droge, and Toulouse 1988) may further serve limit the range of perceived options available to the firm (Miles and Snow 1978). And strategy prescriptions (like Porter's Generic Strategies) may lead to most competitors within the same industry coming to the same conclusions about intended strategy (eg "our's is a commodity business; we must therefore strive to be the lowest cost producer in the industry").

6.4.2 PROBLEMS WITH RECIPES

Strong industry recipes can pose problems for incumbents in an industry. Stubbart (1989) suggests that "informational asymmetries can offer competitive advantage, because "real" competitors may be able to escape attention if they lie outside others' definition" (1989:334). And Smircich and Stubbart (1985) point out that

> "what everyone knows about an industry translates into an opportunity for those who do not know. Many, if not most, really novel and exciting new strategies that invade an industry, are perpetrated by outsiders who do not know the rules." (Smircich and Stubbart 1985:729)

These "rules" or assumptions, if unexamined, can cause persistent problems in strategic decision making. As Tversky and Kahneman (1974) note: "heuristics are quite useful, but sometimes they lead to severe and systematic errors" (Tversky and Kahneman 1974:1125).

Porac, Thomas and Baden-Fuller (1989) explain how membership of a "primary competitive group" (a collection of firms who define each other as rivals) constrains the possible strategies for differentiating one firm from others within the group (an example of Neilsen and Rao's "reciprocal typification" 1987:528). Porac et al's research reveals the recipe for competing in the Scottish Knitwear industry as follows:

"purchase yarn from local spinners, sell sweaters that will appeal to classically-minded high-income consumers, create a flexible production system that can manufacture garments in small lots, hire exclusive agents around the world to market these products, and temper the aggressiveness of one's approach to pricing." (Porac et al 1989:414)

The belief of many managers is that, within this recipe, there are possibilities for differentiating based on subtle differences in design (but still within the "classic" theme).

Gronhaug and Falkenberg (1989) observed that firms "select" competitors based on their reality construction, and that only a fraction of the potential "objectively" defined competitors may be included in the firm's evoked set of competitors. These restrictive perceptions of the competition may be shared by other firms (a "primary competitive group"), but they may result in unanticipated attacks on the group's markets from firms outside this "industry" definition.

Schwenk (1984) explains that recipes can be functional if they help to provide stability in organizational strategy. Simplification, arising from shared assumptions, may increase

the chances of successful implementation by increasing decision makers' confidence in a strategy and their commitment to it (Schwenk 1984:124). The recipe can provide a strong internal ideology providing normative control that reduces political behaviour, and that reduces the need for top management to exercise authority (Mintzberg 1984:211).

If the recipe is no longer appropriate (because of, for example, changing consumer preferences) the adherence to it may still be an attractive option. Grinyer and Spender (1979) argue that:

"although the performance of the company continues to deteriorate, it does so along with others, and management can appeal to comparatively good results in an industry suffering from adverse conditions beyond its control. Launching into a completely new recipe is, in contrast, a hazardous nd lonely step that may lead to even greater disaster" (Grinyer and Spender 1979:123).

6.4.3 TESTING FOR INDUSTRY RECIPES

There have been few attempts to explore empirically the concept of and industry recipe. Grinyer and Spender called for cross sectional research into patterns of management beliefs and judgements within an industry, and Stubbart and Ramaprasad (1990) set out a wide ranging research agenda into managerial cognition, which includes the study of industry recipes (1990:285).

As reported earlier, Porac, Thomas and Baden-Fuller (1989) have attempted such a study of the Scottish Knitwear industry. They used semi-structured interviews to explore, inter alia, whether there were shared beliefs and assumptions about competitors, and strategies across the sample of firms selected. Their approach enabled them to reveal quite specific recipe dimensions that were likely to be peculiar to that industry (eg "purchase

yarn from local spinners"). However, other dimensions of the recipe were more generic in character, eg, the target market definition: "We're top end. We are in the market where customers simply want the best", and the belief that this segment is not price sensitive (Porac et al 1989:406).

The "Perceptions of Strategic Priorities" questionnaire developed in this study contains statements of a generic nature concerned with competitive strategy. Thus this instrument cannot reveal industry specific strategy dimensions. What it can reveal is whether managers in an industry stress certain generic business-level priorities when compared to a broad sample of managers from other industries.

Defining the boundaries of an industry is difficult (see the discussion in Chapter 5). Although an attempt was made in the present study to proactively gather data on an industry basis (by sampling firms from the retail industry, and approaching them for assistance), this effort did not yield enough SBUs to permit a meaningful study of industry recipes.

However, the SBU database does contain 11 SBUs from within the regional newspaper industry. The industry is fragmented (Dess 1987; Porter 1980), and although all the SBUs are part of a large corporation there has been little attempt to date to address the strategic management of the SBUs from a corporate perspective. The group has grown through acquisition (a common strategy in the industry), and some of the SBUs in the sample have only recently been added to the portfolio.

The parent group confronts four other competing newspaper groups (and many more smaller players) across the UK. The SBUs within the group compete for local advertising, and local newspaper sales through offering combinations of paid-for evening, and weekly newspapers, and weekly free newspapers. All firms employ a common technology in producing, printing and distributing newspapers. The editorial, sales and production

management attend industry-wide conferences; and there is a monthly journal devoted specifically to the regional newspaper industry. The editorial staff, in particular, appear to this observer, to regard themselves as belonging to a professional group. And, apart from accounting and systems specialists, the Top Management teams of these newspaper SBUs have generally spent their entire careers in the industry.

Within the industry it is common for editorial, production and sales staff to move between competitors. Managers have reported there to be few differences in the way different newspaper groups approach the business of printing and publishing regional newspapers. Within the group that forms the sample, staff have been moved from SBU to SBU. However, the group structure is such that each SBU is required to meet financial targets, but the strategy of the SBU is left to the SBU managers. Within the group, managers from different newspaper SBUs perceived that other SBUs in the group were potential competitors. The relative autonomy of the SBUs is justified on the basis of the fragmented nature of the industry, and the need for each SBU to determine its strategy to meet the local competitive conditions. The "standardizing" influence of the group HQ is weak for other reasons:

* the group has grown through acquisition

* the group lacks a strong corporate staff

Therefore, although the regional newspaper SBUs belong under the same corporate umbrella, there is little evidence of corporate activity to standardise strategy across the group.

However, because the SBUs do, nevertheless belong to the same corporation, it would be more appropriate to argue that although the a priori conditions would suggest that the firms are effectively autonomous entities, if evidence of shared

perceptions of strategic priorities is observed across this grouping, we can only infer that this is evidence of an industry recipe. We must acknowledge that there may be a corporate level of influence operating as well.

To explore whether a "recipe" exists in this industry the 191 managers from the industry were grouped, and their means for each statement were compared to all other managers in the database (918 managers). On 10 of the 21 statements the newspaper group have significantly different means (at the p=0.01 level). The results are represented in the Strategy Fingerprint in Figure 6.4.

The newspaper group were significantly higher (at the p=0.01 level) than the other managers on all four of the statements that load onto the "price Competition" factor (Statements 11, 15, 19, 21). The group was also higher than the rest on four of the five statements that load on to the cost control factor (Statements 1, 6, 8, 13). The other two statements that were significantly higher were Statements 17 and 18 ("sales information" and "superior products"). This would suggest that:

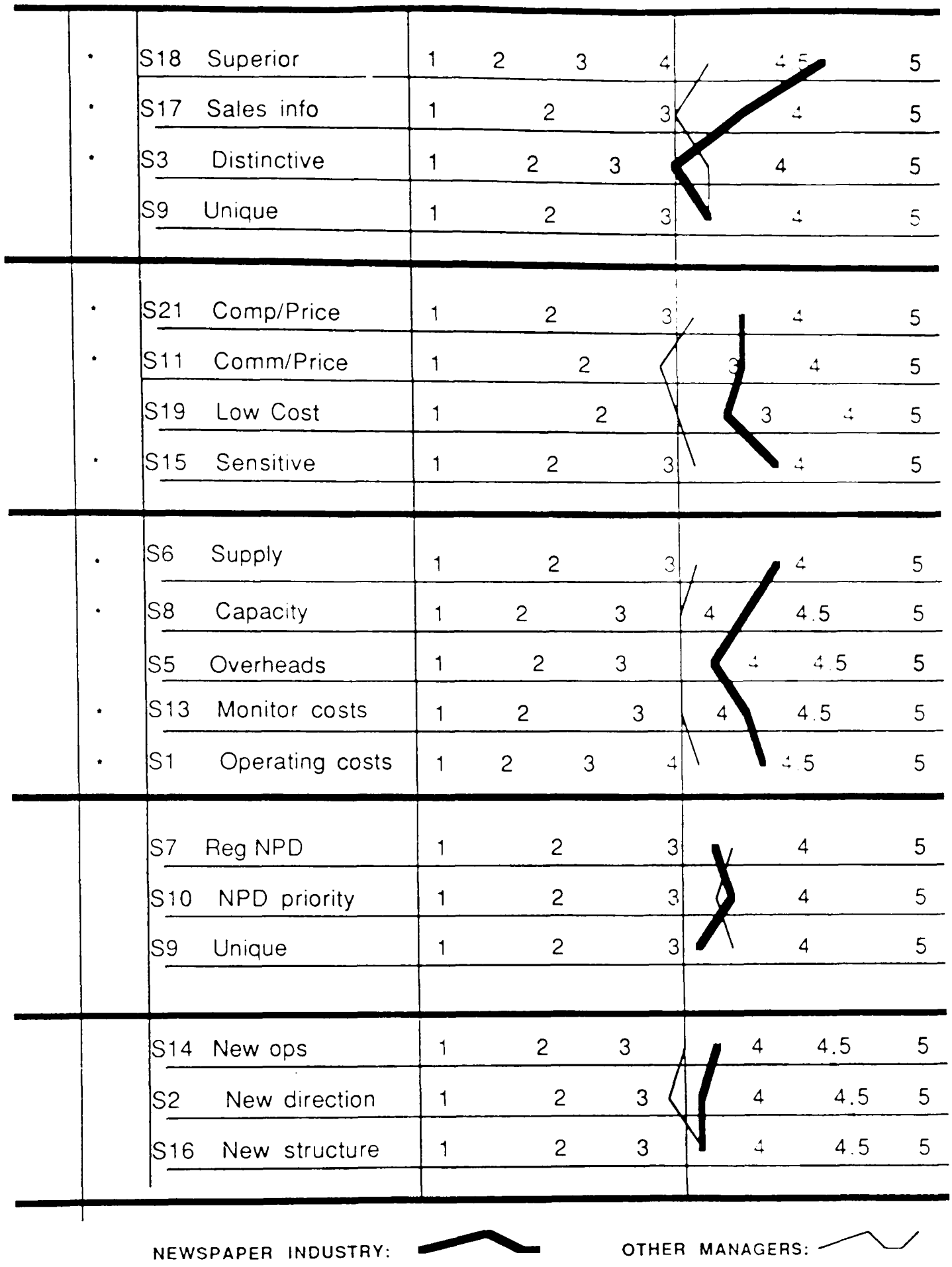
* there is evidence of an industry "recipe"

* that the recipe is about firms competing on price, and placing considerable emphasis on controlling costs.

As Grinyer and McKiernan (1990) point out, an industry recipe may evolve through competitive manoeuvres that are imitated. And, as technology or markets change there are likely to be pressures on firms to rethink their ways of competing, which may lead to a change in recipe. The evidence provided here from the regional newspaper industry may represent a shared, industry-wide response to deteriorating market conditions. The regional newspaper industry relies heavily on trade advertising for its revenues (typically, sales of newspapers account for less

SIGNIFICANT DIFFERENCES (P=0.01)

FIGURE 6.4 THE NEWSPAPER INDUSTRY



than 30% of revenues). In times of recession the three largest components of advertising revenue can fall dramatically (situations vacant; property; motors). The industry-wide concern for cost cutting, and competing on price may reflect a shared response to revenue decline:

* compete on price to preserve share, and to hang on to major accounts

* cut costs to preserve profitability in the light of declining advertising revenues

Our work with these and other newspaper SBUs in strategy workshops (see Appendix 6B) has surfaced that managers generally share a set of implicit, and largely unchallenged assumptions about, inter alia, what readers value in their products, what advertisers want, and what "quality" means. The industry recipe revealed here currently emphasises cost cutting and price competition. Therefore, one explanation for this finding might be that managers believe they understand what customers want, and that they are meeting their needs. Therefore, there is no point in seeking to change the products or services that they offer; the only other available response to difficult market conditions is, therefore, to cut price. And, in order to preserve profits, revenue declines must be matched by cost cutting.

To conclude, there would appear to be evidence that managers from this group of newspaper SBUs share similar perceptions of strategic priorities. It has been argued here that, although these SBUs are from the same corporation, there is little evidence to support a view that the corporation has attempted, in the past, to encourage a corporate approach to SBU level strategy. As a consequence, these shared perceptions could be interpreted as evidence of an industry recipe.

In order to further explore industry specific dimensions of business level strategy an adaptation of this approach could be

used. For example, the interview approach adopted by Porac et al (1989) to derive a set of industry specific statements. Then consensus within the industry around these statements could be measured and compared to consensus measures for other industries.

In the final section of this chapter some case examples have been selected to illustrate organization influences on management perceptions of strategic priorities. In most cases the SBUs were involved in strategy development workshop activities where the surfacing of management perceptions of current strategic priorities formed part of the debate (Bowman and Johnson 1991). These workshop processes are briefly described in Appendix 6B below. Appendix 6A describes how the questionnaire has also been used in general management development programmes.

6.5 ORGANIZATIONAL INFLUENCES ON MANAGEMENT PERCEPTIONS: SOME CASE EXAMPLES

Where the questionnaire has been used to assist management teams in strategy making workshops two visual presentations have been developed to present back to the managers the results of the analysis. The SBU Plot locates each respondent on a two dimensional graph. The vertical axis represents the respondent's "Differentiation" Factor score (see Chapter 3), the horizontal axis represents the respondent's "Cost Efficiency" Factor score (see Figure 6.5). The SBU Plot provides an overall picture of:

* the extent of consensus within the management group

and

* what there is consensus about (either Differentiation, Cost

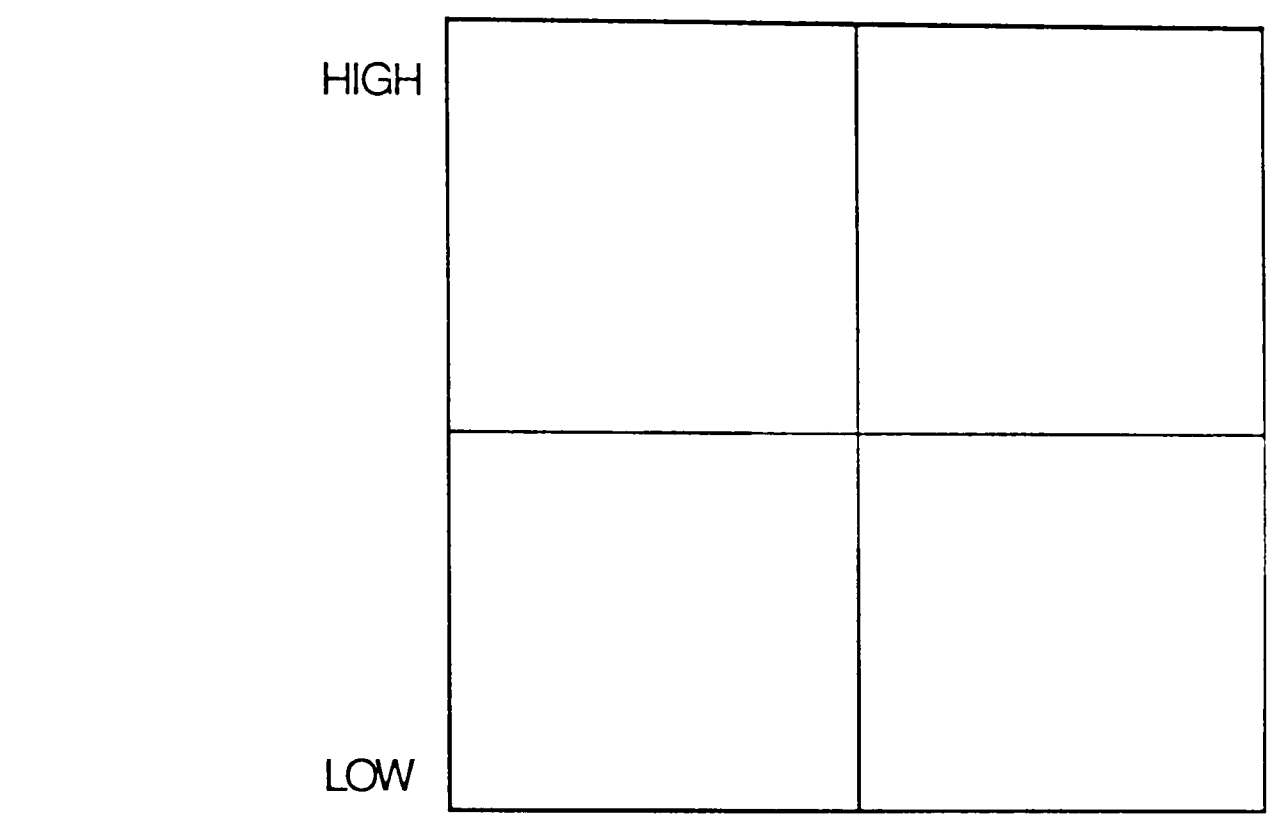


FIGURE 6.5 PERCEPTIONS OF STRATEGIC PRIORITIES: THE SBU PLOT

Efficiency, both thrusts, or neither thrust).

In addition to the SBU Plot the Strategy Fingerprint has been used in Case F to provide additional insights into the data.

Seven cases have been selected. The cases illustrate the different ways in which the surfacing of managerial perceptions of strategic priorities has contributed to management thinking, and to strategy development.

Case A: this explains how the surfacing of considerable differences in the perceptions of current strategy amongst board members assisted their strategic thinking

Case B: here managerial assumptions about the commodity nature of their industry were revealed, which provided an opportunity for colleagues from other SBUs to challenge these assumptions

Case C: differences in perceptions of competitive strategy between the TMT and functional level managers signalled to the TMT that their intended strategy had not been effectively communicated

Case D: here the presentation of a widely scattered SBU Plot challenged TMT complacency

Case E: tangible evidence of a lack of strategic direction confirmed managers concerns about the business

Case F: evidence presented of a successful attempt to implant a strategy of focussed differentiation in the firm offered an opportunity to critique the strategy

Case G: here evidence that the intended strategy of cost leadership had influenced management perceptions also provided an opportunity to challenge and criticise the strategy.

6.5.1 CASE A

Figure 6.6 represents the main board team of a major UK retail organization which had suffered some years of deteriorating performance. The board had been debating the need for strategic change for some months. The debate had proceeded as though members of the board had a common understanding of what the current strategy was and the broad direction in which it should be moving. To the outside observer, the espoused strategy seemed clear: the company had been acquired by a group, the chairman of which was associated strongly with the idea of "design excellence". As such, the stated strategy of the SBU was to gain competitive advantage by a merchandising and store design policy which emphasised the importance of customer orientated design.

The questionnaire revealed considerable differences in the board members perceptions of current strategy (as can be seen from Figure 6.6). In Figure 6.6 the chief executive is A; he sees a push towards efficiency and low cost as the current strategy. However, whilst the personnel director (D) and finance director (C) have a similar understanding, the merchandise director (F), property director (E), and the development director (B) also believe the current strategy to be one of differentiation.

Not only is there a difference between the views of the board and the espoused strategy, but the differences within the board are considerable, and were startling to them. It was a further shock for them to find that, when they looked at their senior management team by function (Figure 6.7) the spread of views was even wider. Although most of the senior managers in the store operations (V,W,X,Y,Z) and finance (S,T,U) functions coalesced around an efficiency strategy, the spread of managers in the merchandising function (I to R) was initially seen as remarkable. However, in discussion, it emerged that it might be understood as a reflection of the historic role of the product group for which each buyer was responsible. N, a senior buyer for

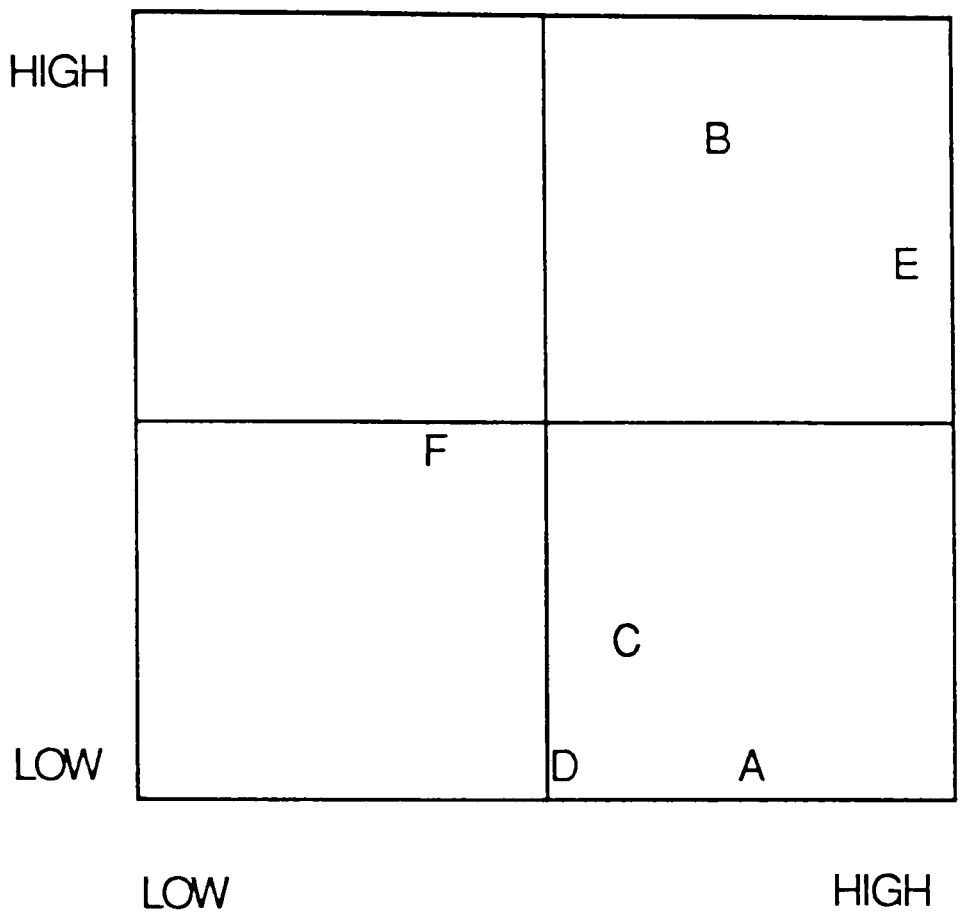


FIGURE 6.6 PERCEPTIONS OF STRATEGIC PRIORITIES: CASE A, THE TOP MANAGEMENT TEAM

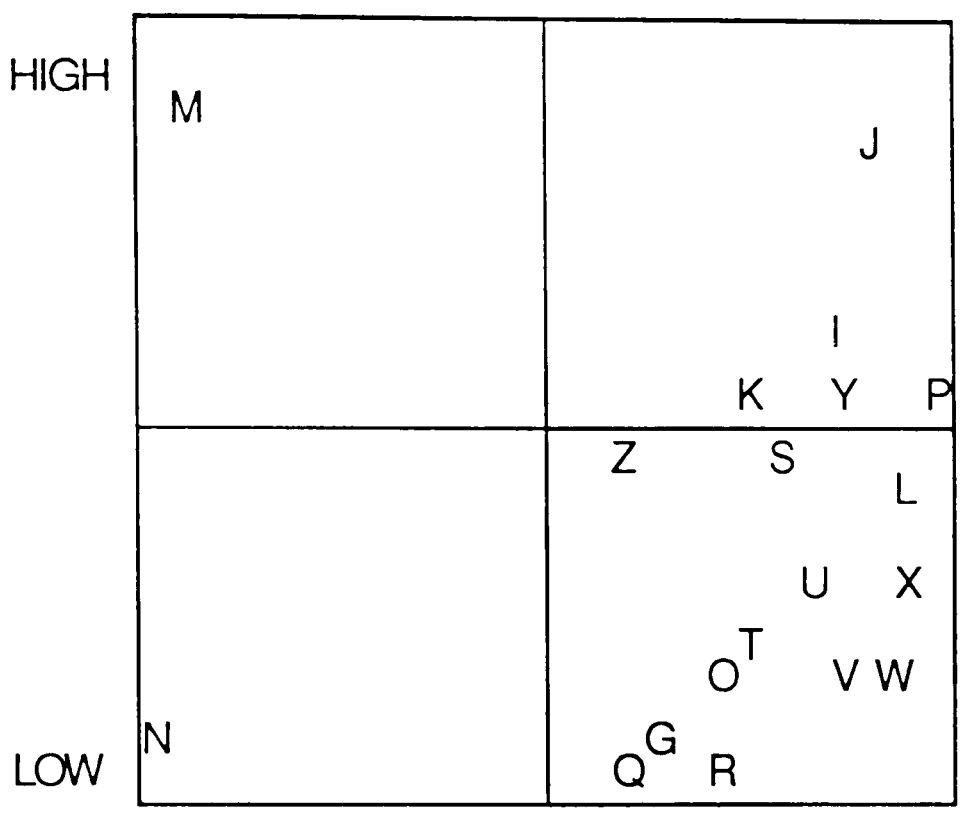


FIGURE 6.7 PERCEPTIONS OF STRATEGIC PRIORITIES: CASE A, FUNCTIONAL MANAGERS

a product range which had never been successful for the company, has a view of the company's strategy as "Impoverished". M is a senior buyer for a fashion range, with a view of strategy as to do with differentiation and nothing to do with cost or efficiency. And I is responsible for the range with the greatest profit contribution historically, and sees the company strategy as both differentiation and efficiency based.

Differences were, then, surfaced between members of the board, between functions, and, in the crucial merchandising area, within a function. These results changed the nature of the strategy debate. Hitherto this had assumed a common understanding about the agenda for debate and the assumptions about strategic issues facing the SBU: it shifted towards unearthing and challenging fundamental assumptions about competitive positioning.

6.5.2 CASE B

This SBU produces insulation material for industrial, and domestic applications. It is part of a large multi-national corporation. The industry is highly competitive, there is excess capacity and fierce price competition. The managers generally perceive that they are in a true "commodity" industry, where there is no real scope to differentiate their products.

The "realised strategy" was presented to a small group of managers, not including the MD, who were taking part in a corporate-wide executive development programme. The plot (Figure 6.8) surprised managers from other corporate SBUs, who were able to compare it to their, and other SBU plots. These had generally displayed a greater dispersion than the insulation SBU plot.

The plot did not surprise the SBU representatives on the

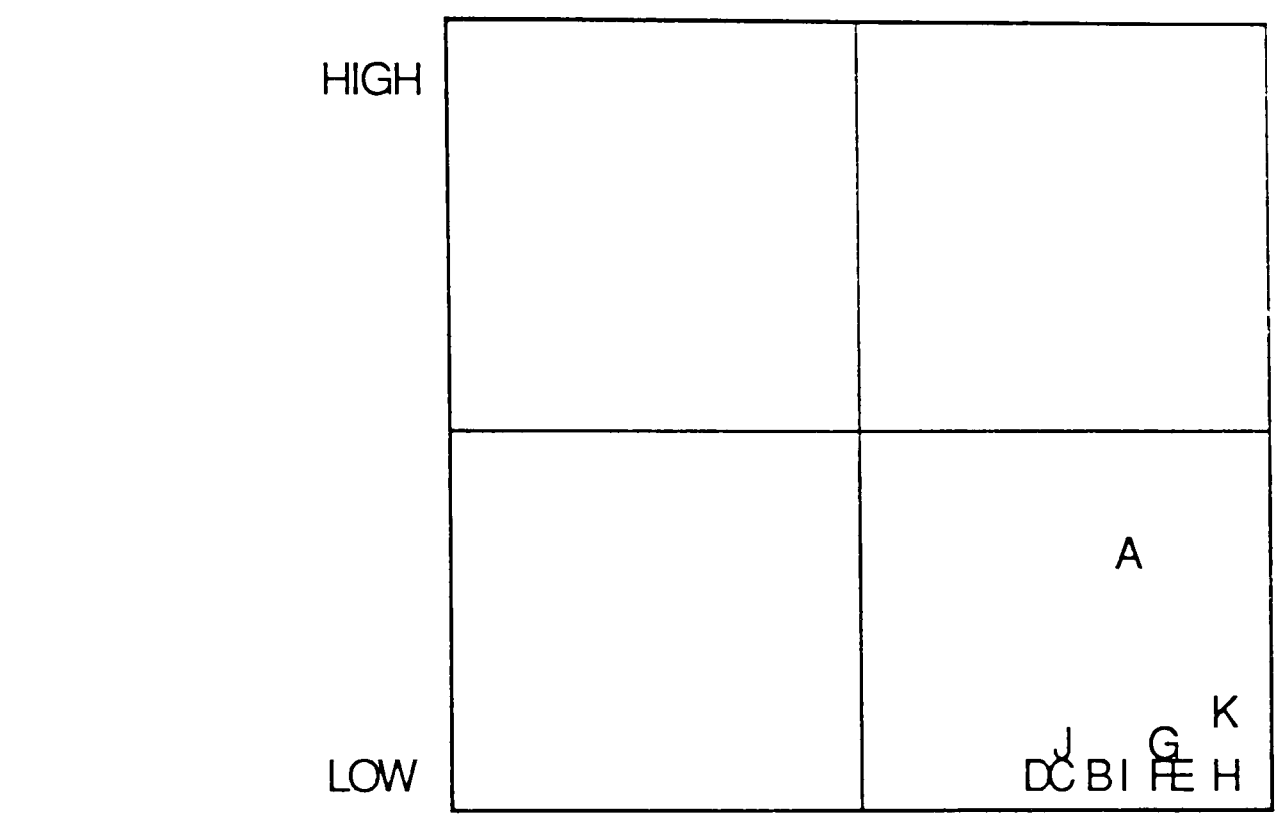


FIGURE 6.8 PERCEPTIONS OF STRATEGIC PRIORITIES:

CASE B THE TOP MANAGEMENT TEAM

programme. They said that it merely confirmed the view that they were in a commodity industry. The "outlier" (A) was correctly identified by these managers as the Managing Director. He believes that the assumption that they are in a commodity business should be challenged, and that, through product and service development the SBU can find ways to avoid competing solely on price. The representatives on the programme then debated whether the MD's view was tenable. Managers from other SBUs put forward arguments that challenged the assumptions of the industry revealed through the plot (eg the core product maybe a commodity, but there are ways of differentiating the service surrounding the core product).

The SBU managers began to concede in the discussions that it was possible for the accepted "rules of the game" in their industry to be challenged to good effect.

6.5.3 CASE C

The SBU is the UK subsidiary of a US based multi-national. The SBU markets and services a broad range of photocopiers, and other electronic office equipment. The questionnaire survey was conducted as part of a substantial initiative to improve the competitiveness of the business. 65 managers from the SBU were included in the survey representing:

* The Top Management Team (9 managers)
* Sales (11)
* Service (11)
* Finance (10)
* Marketing (10)
* Human Resource Management (7)

Overall, the survey revealed a degree of consensus around a strategy of differentiation. However, comparing the functional groups, and the TMT, with the rest of the managers in the survey revealed some important differences in perceptions of priorities.

The TMT rated two statements significantly lower than the other managers: Statement 7 (Regular new product development; $p = 0.094$) and Statement 18 (We aim to offer superior products or services to those of our competitors; $p = 0.006$). The results of a survey carried out for the company into managers' perceptions of the sources of their competitive advantage, revealed that the TMT rated the products fourth in importance (behind service, "total quality management", and staff commitment). Managers below the TMT rated products as the greatest source of competitive advantage.

These results indicated to the TMT an important difference in perceptions about the company's competitive strategy which is now the subject of some debate.

The sales managers rated Statement 9 significantly higher than the other managers (We try to offer unique products/services enabling us to charge premium prices; $p = 0.008$). This finding suggests that the intended strategy of the company (to be a "value added supplier") is reflected in the perceptions of the sales managers. However, the "premium price" element of the statement also reflects a concern of some sales managers that the company's products may be too high priced.

The company offers a broad range of products, but it is competing against other firms who have concentrated on supplying narrower, more focussed product ranges. In discussions and interviews with managers, some sales managers believe that, particularly in the small volume copier market, they are becoming uncompetitive. There is a commonly held belief that their main rival in this segment "can manufacture at half our costs".

The sales managers rated Statement 13 significantly lower than the rest (We carefully monitor operations to help us keep costs under control; p = 0.009).This appeared to reflect these managers' relative lack of awareness and concern for cost control. In the past the sales function had been protected from any cuts or redundancies, and salesmen are well rewarded through sales-linked commission payments.

The service managers (responsible for servicing the products sold by the sales teams) rated three statements significantly differently from the rest. Whereas the sales managers rated Statement 9 higher than the rest, the service managers rated it lower (Unique products, premium prices; p = 0.002). This may suggest the differing experiences of these two groups of managers. The service managers have to deal with the installed products, and the customers who may be having problems with them. As a result of these experiences they may be less impressed with the "uniqueness" of the products than the sales managers. This view is reinforced by changes in the market brought about by recession. Customers are postponing the replacement of older machines, which are therefore requiring more servicing to keep them going.

The service managers rated Statement 8 significantly higher than the other managers (We try hard to maintain the maximum feasible utilisation of our capacity/resources; p = 0.09), reflecting the pressure on these managers to improve the efficiency of their service engineers. These managers rated Statement 19 higher than than the rest (We aim to be the lowest cost producer in the industry; p = 0.051), but their mean was still low (2.909). Whereas the sales function have been protected from cuts in the past, the service function has not, which could explain the service managers perceptions about cost pressures.

The finance/accounting managers rated Statement 18 higher than the other managers (We aim to offer superior products/services to those of our competitors; p = 0.076). A suggested explanation

for this was that theses managers, who were somewhat removed from the operational side of the business, nevertheless believed that the firm offered superior products (their mean was 4.90).

The Human Resource managers rated four statements significantly higher than the other managers:

* Statement 1 (Control of operating costs; $p = 0.081$)

* Statement 6 (Low cost supply; $p = 0.072$)

* Statement 7 (Regular new product development; $p = 0.099$)

* Statement 10 (NPD top priority; $p = 0.042$)

Hence, priorities about cost control, and product innovation were rated by the Human Resource managers higher than all the other managers in the survey. The Human Resource function is not highly rated by managers from other functions (and TMT members). It is regarded as a peripheral staff function, and its managers are viewed by some as being "out of touch" with the mainstream activity of the business. These differences of perception may be a consequence of this relative remoteness of managers from this function from the day-to-day concerns of the business.

The tendency for managers from the Human Resource function to perceive different priorities is reinforced by the lack of movement of managers between this function and other functions. One result of Human Resource managers perceiving different strategic priorities could be that they would pursue recruitment, promotion and training policies that are not in line with the perceived priorities of other managers.

6.5.4 CASE D

This case of a regional newspaper group has been selected as an example as it was typical of the ten newspaper SBUs that were involved in a series of the strategy workshops led by the author (see Appendix 6B). This was a well established business, perceived by the very long serving and loyal staff as "part of the community". The group produces a mix of weekly paid-for titles, and some free newspapers to the local region.

In the early phases of the workshop the management team approached the tasks of analysis with goodwill, but without urgency. There was a view shared by some that they had little to learn from the strategy workshop; that they understood their business very well (they had, after all, been running a newspaper business for many years); and that there was really little need to change. The most vociferous and eloquent proponent of these views was the senior editor.

The early stages of the workshop involved the team in a structured analysis of the current, and future, competitive environment. This revealed a variety of trends that, to the facilitators, represented major threats or opportunities to the business. These included a substantial change in the industrial base of the region (from heavy woollen manufacturing to service industries); a growing immigrant population; increasing competition from other newspaper groups; threats by some major advertisers to produce their own advertising medium (eg estate agents, motor traders); lowering technical barriers to entry (desk-top publishing).

Notwithstanding this set of major external issues, most members of the team remained of the opinion that there was little need to change. Indeed, they persisted in referring to their market as "the heavy woollen district", despite the fact that this definition would have no meaning to a newcomer to the region, the industry having long since gone into decline.

The team were also very much wedded to the notion that they were a "newspaper business". The traditions and symbols reinforced this perception. The finance director revealed during the workshop, however, that less than 10% of their revenue came from newspaper sales; the rest came from advertising. This came as a surprise to most of the management group.

In trying to get the team to confront some of these "facts" the facilitators faced a significant attitudinal problem. The complacency in the team, and the satisfaction with the status quo only began to be shaken with the presentation of their "realised strategy" plot (see Figure 6.9). The spread of opinion revealed by the plot shocked several of the managers. Others looked for ways to justify the appropriateness of the dispersion. The net effect, however, was that the team approached the remainder of the workshop with far more urgency and commitment. One manager remarked, at the conclusion of the workshop, that "it was a pity we wasted the first day and a half".

6.5.5 CASE E

The SBU was formerly part of a large conglomerate, within which it suffered losses for 12 out of 14 years. Its core business was the supply of radio equipment; its prime customer being the UK Ministry of Defence. Three years ago it was the subject of a management buyout, financed by city institutions.

A new MD was appointed 12 months ago, who proceeded to make substantial changes to the structure of the company. In particular, a large number of managers were dismissed, and the business was reorganised from a functional structure to a divisionalised structure. These changes had the effect of disorientating many of the managers who remained, accustomed as they were to stability and security.

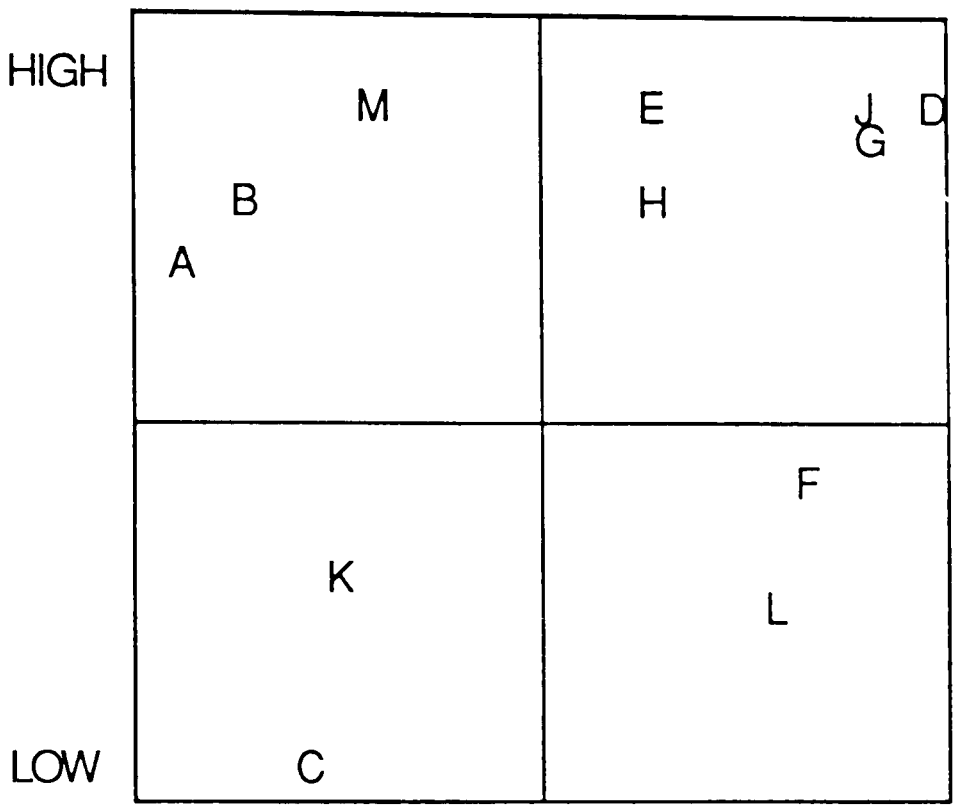


FIGURE 6.9 PERCEPTIONS OF STRATEGIC PRIORITIES:

CASE D THE TOP MANAGEMENT TEAM AND SOME FUNCTIONAL MANAGERS

The questionnaires were, again, used as part of a strategy workshop for the top managers in the business. This group comprised three "corporate" managers (responsible for marketing, finance, and business development) and the top managers from the two, newly formed divisions.

The "RSD" division represented the past; this division retained the core, traditional activities associated with the development and assembly of naval radio systems. The "TD" division was comprised of three small SBUs engaged in various types of engineering development work, funded primarily by customers.

The presentation of the "realised strategy" plot confirmed a view held by the facilitators that the group lacked a clear strategic direction (Figure 6.10). Eight of the fourteen managers appeared in the "Impoverished" quadrant indicating that they did not perceive many strategic priorities extant in the business. The low ratings also tended to reflect the low morale experienced by some managers. The fact that two of the three newly appointed corporate staff (A and B) shared the perceptions of a lack of strategic priorities tended to reinforce the concern of the MD and other managers that they faced a serious problem.

The contribution of the plot to the debate was, then, to provide tangible evidence to support the feelings of concern and unease expressed by a number of managers.

6.5.6 CASE F

Three directors of this specialist nutrition company attended a general management development programme run by the author and a colleague. At this programme Porter's generic strategy concepts were presented, and the importance of choosing between generic strategies was discussed and advocated.

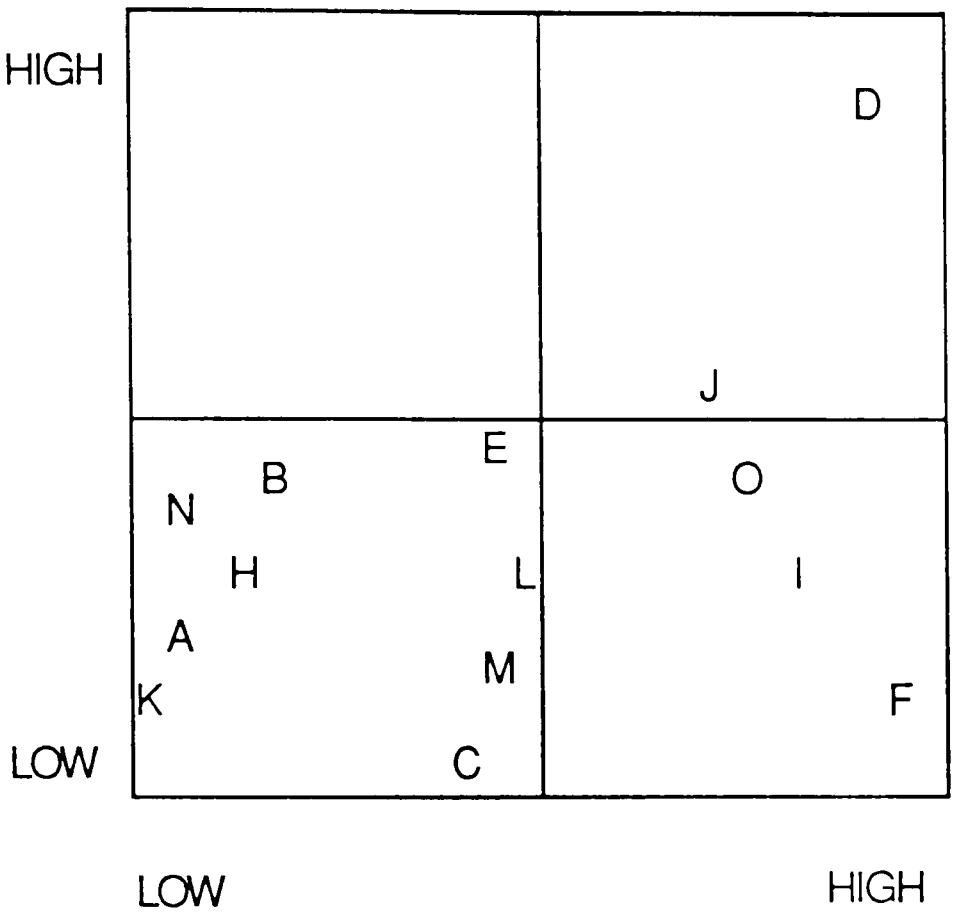


FIGURE 6.10 PERCEPTIONS OF STRATEGIC PRIORITIES:
CASE E CORPORATE, AND DIVISIONAL MANAGERS

Eighteen months after the programme, I was approached by these directors to run a strategy workshop for their management team. As preparation for the event the managers were asked to complete the questionnaire. In preliminary discussions with the directors to determine the scope and content of the workshop, the directors remarked that they had been particularly impressed with the Porter framework, and had explored Porter's ideas further. They had decided that their strategy had to be that of a focussed differentiator, a strategy which seems appropriate given the specialist nature of their products (nutritional supplements for people with in-born, or disease-related intolerance to, for example, particular amino acids).

Four months prior to the workshop, the firm was taken over by a Finnish company. The takeover was sought by the directors to free themselves of the residual involvement of the founding owners, and to avoid being taken over by one of two unwelcome suitors. Three Finns have now become members of the board.

The plot, and the strategy fingerprint are unequivocal (see Figures 6.11 and 6.12). The managers all perceive the strategy to be about offering superior products, and developing new products. Cost efficiency, and price competition are not seen as part of the strategy.

The only managers who appear to be slightly different from this strong consensus are two of the three Finns. They still perceive priorities to do with product superiority and innovation, but they also emphasize cost control.

On this evidence it would appear that the efforts of the directors to implant a perceived strategy of focussed differentiation would seem to have been remarkably successful. In order to judge this, however, we would need to have a plot of the managers' perceptions prior to the efforts to implant the focussed differentiation strategy.

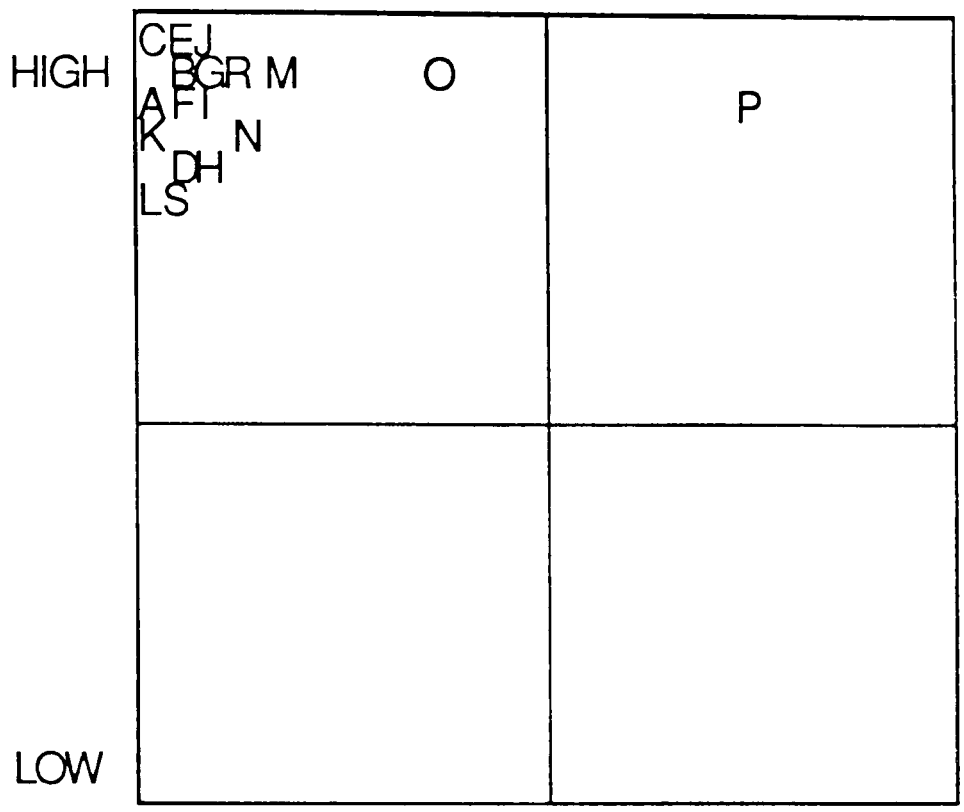


FIGURE 6.11 PERCEPTIONS OF STRATEGIC PRIORITIES:

CASE F TOP MANAGERS, AND FUNCTIONAL MANAGERS

FIGURE 3.12 CASE F: STRATEGY FINGERPRINT

SD		MEAN SCORE 1 2 3 4 4.5 5
0.4	S18 Superior	
0.8	S17 Sales info	
0.6	S3 Distinctive	
0.4	S9 Unique	
0.6	S21 Comp/Price	
0.9	S11 Comm/Price	
0.6	S19 Low Cost	
1.1	S15 Sensitive	
0.9	S6 Supply	
0.9	S8 Capacity	
1.1	S5 Overheads	
1.0	S13 Monitor costs	
1.0	S1 Operating costs	
0.7	S7 Reg NPD	
0.8	S10 NPD priority	
0.4	S9 Unique	
1.0	S14 New ops	
0.9	S2 New direction	
0.8	S16 New structure	

However, this particular example raises some interesting issues about strategic choice. Given the nature of this firm's products, and the markets it sells them into, is it likely that a different set of priorities would emerge (in the absence of deliberate attempts to shape managerial perceptions)? Could this type of firm conceivably pursue a strategy of cost control, and price competition? In other words, to what extent are the perceived priorities determined by the products and markets the firm happens to be competing in, rather than being determined by the management.

These issues were raised at the strategy workshop. However, in place of the Porter generic strategy framework, competitive strategy was discussed using the "managerial theory" developed in Chapter 5. The group were presented with the two competitive thrusts (compete on price, and offer superior perceived use value), and the argument was put forward that, for profits to be made, each competitive thrust should be combined with cost control. I then advanced the view that "focussed differentiation" was essentially to do with selecting the ground on which the firm chooses to compete; it does not explain how the firm is to outperform other firms perceived by customers to be offering close substitutes.

Bearing in mind the strength of shared understanding within the UK managers about their "focussed differentiation strategy", the reactions to this challenge to their beliefs was interesting. One remarked that he had a feeling that the focussed differentiation strategy was rather too glib, and simplistic. One of the Finns remarked that he was surprised at the lack of concern for cost control in the firm, which was confirmed by the realised strategy plot. The finance director, who was one of the original proponents of the focussed differentiator strategy, indicated that he now understood why they were not making the kind of profits that their "niche" strategy should be delivering.

The discussion then moved on to whether they could raise the concern for cost control from its present low level, without jeopardising their sources of uniqueness and innovation. The issue of "cost leadership" was raised in this context. The group felt that they could not, and should not try to be the lowest cost producer in the industry. But their reference point for this view was an industry definition that included manufacturers of baby foods. It was pointed out that it might not be relevant to compare their business with firms like Nestle; but they could become cost leaders in the small group of firms that they competed directly with in their specialist markets.

The outcome of these discussions was a major revision of their Mission Statement and their competitive strategy.

6.5.7 CASE G

Subsequent to the main data collection phase of the research, an opportunity to conduct the research in a large multi-SBU corporation arose. The corporation is in glass making, and has manufacturing and sales organizations across the globe. This corporation had a "Mission Statement" which explicitly stated that the aim was cost leadership across all their markets (David 1989). Thus, this provided an opportunity to explore two further issues:

* the extent to which an explicit statement of intent affects managers perceptions of strategic priorities

* the interpretation of the "cost leadership" statement (Statement 19)

Managers from the Top Management Teams, and from functions beneath the TMT from 16 SBUs completed the questionnaire (a total of 81 managers). The means for this group were then compared with those for the (now expanded) management

database (1312 managers).

Four cost related statements were rated significantly higher (at the p=0.01 level) by the glass corporation's managers. These were Statement 5 (pressure to cut overheads), Statement 8 (maximum utilization of capacity), Statement 15 (efforts to improve efficiency) and Statement 19 (we aim to be the lowest cost producer in our industry). The corporation's managers had a mean for this statement of 3.605 (compared to 2.479 for the other managers).

Only two other statements were rated significantly differently by the corporation's managers. These were to do with new product development: Statement 7 (regular new product development) rated lower by the corporation; and Statement 12 (line of products seldom change) rated higher by the corporation.

These findings might suggest that the efforts by the corporate HQ management to promulgate a cost leadership strategy have succeeded in affecting managerial perceptions of strategic priorities. However, this finding rests on the premise that, in the absence of a corporate mission statement the SBU managers would perceive strategic priorities in line with the "average" manager (revealed from the database).

However, although the results cannot be used to confirm the effectiveness of the mission statement in changing perceptions, they do not run counter to this view. In order to properly explore this issue a longitudinal approach would be appropriate, sampling perceptions before and after the attempts to implant a shared mission.

The results also indicate that these managers, at least, have interpreted Statement 19 (lowest cost) as intended.

A group of managers representing ten SBUs from the corporation were presented with the "managerial theory" of competitive

strategy developed in Chapter 5, as part of a general management development programme. This presentation allowed the managers to comment on, and critique the mission to be cost leaders in all markets. Managers expressed their doubts about the strategy, and for some, this was the first opportunity they had had to express these concerns openly. In particular, the problems of identifying competitors costs was raised as a problem. One manager reported that his SBU had a team of analysts trying to model competitors costs precisely for the purposes of implementing the mission. Despite the commitment of considerable amounts of time and resources, the team had failed to establish reliable indicators of competitors' costs.

6.6 EVIDENCE OF ORGANIZATIONAL INFLUENCE ON PERCEPTIONS OF STRATEGIC PRIORITIES

In some of the cases there is evidence of a high degree of consensus among the managers sampled from the SBU. This would indicate that organizational influences played a significant part in shaping managers' perceptions (eg. Case F: the "focussed differentiator"). In Case B (the insulation SBU) managers reported that there's was a commodity industry, which may suggest that their perceptions were strongly influenced by the industry "recipe". Cases A and D revealed a lack of consensus which may indicate that managers' perceptions were influenced by other experiences (eg. functional background).

Functional influences were in evidence in Case C (the photocopier SBU), and corporate level influence seemed to be affecting perceptions in Case G (the glass manufacturer). Finally, it could be argued that the consensus about the lack of strategic direction in Case E (the MoD contractor) is evidence of a strong, but negative, organizational influence on perceptions.

6.7 CONCLUDING COMMENTS

In this chapter we have explored four important issues in strategic management using the "Perceptions of Strategic Priorities" questionnaire. First, the issue of functional bias, second the existence of industry recipes, third, the surfacing of realised strategy in discussions of SBU strategy, and fourth the influence of the organization on managers' perceptions of strategic priorities.

In any given organizational circumstance a manager's perceptions of strategic priorities will be affected by a multiplicity of past and present influences. In this chapter we have explored three of these sources of influence: the functional position of the manager; the industry context; and the SBU context. Evidence has been presented that suggests that each of these sources of influence may play a predominant role in shaping managers' perceptions. In some circumstances the industry influence is strong (the regional newspaper SBUs; and Case B). Investigation of the manager database provides evidence of a generalised tendency for function position to influence perceptions, and Case C offers supporting evidence from an SBU. Cases F and G provide examples of successful attempts to influence perceptions, although in both cases there may be a strong industry effect which constrains strategic choice (to "differentiation" strategies in Case F; and to "low cost" strategies in Case G).

Case E (the MoD contractor) would appear to provide an example of a lack of strategic direction emanating from the apex affecting managers' perceptions.

A manager's perceptions of SBU strategic priorities emerge from a complex perceptual process (Hambrick and Mason 1984; and Figure 6.1). Although the evidence presented here would support the view that function, industry and organization influence perceptions, it is not at all clear how these influencing

processes operate. For instance, why do functional influences appear to be more important in some circumstances? How do management perceptions evolve? How do they change? In what circumstances are organizational influences likely to predominate? Is functional background likely to be the "default" influence if there are weak organizational and industry influences? These interesting questions could form the basis for future research, which will be discussed in the following chapter.

This chapter has demonstrated that, although the questionnaire is constructed around a set of generic strategy and change statements, it does, nevertheless, produce useful degrees of variance which can be fairly readily interpreted. However, the advantages of using this parsimonious and standardised instrument to investigate these diverse topics, need to weighed against its disadvantages. The shortcomings of the questionnaire, and the methodology used in this chapter are, again, discussed in the following, concluding chapter.

APPENDIX 6A

USING THE QUESTIONNAIRE IN MANAGEMENT DEVELOPMENT PROGRAMMES

The questionnaire has been used in different ways in programmes of management development. With mixed groups of managers on general management programmes the questionnaire has been used to reflect back to the delegates their positioning on the two-dimensional (SBU type) plot, with "Differentiation" on the vertical axis, and "Efficiency" on the horizontal. (As explained in Chapter 3, the manager's position on the graph is determined by his or her factor scores on the "Differentiation" and "Efficiency/Cost Control" factors. Hence, if a manager appears in a corner of the graph, his factor score is substantially different from the mean score.)

If there are two or three managers from the same firm attending the general management programme, then the presence or absence of consensus around these two axes (indicated by the grouping of the respondents on the graph) can be used as a basis for discussion. If consensus exists about, say, an "Efficiency" orientation, the discussion would address the appropriateness of this orientation, and the possible reasons for the managers perceiving a strong cost control orientation. These discussions often surfaced some interesting explanations for strong "Efficiency" orientations:

* ours is a "commodity" industry; there is no way to differentiate the product/service

* our firm is performing badly, and there have been cuts in expenditure, and a tightening of budgets

Where managers have been located in the "Impoverished" quadrant, discussion reveals a number of reasons for this:

* the managers genuinely do not perceive their to be a strong orientation towards either efficiency, or differentiation in their SBU

* the managers are demotivated, and they reflect these negative feelings about the SBU by rating the strategy statements low

Where managers are located in the "Hybrid" quadrant the discussion usually centres on the possible problems their SBU might be experiencing through the simultaneous pursuit of Differentiation, and Efficiency. Generally, the organizational difficulties and contradictions indicated by academics (Porter 1980; Miller 1987; Mintzberg 1979) are not shared by the "Hybrid" respondents. This could be because they do not fully understand the points made by these writers (as conveyed by this author in the discussions, and in previous lectures to the group). It could be because they represent those few excellent SBUs that have successfully integrated these two strategic orientations. Or it could be that an artificial dichotomy is being made between the two strategic orientations, to which practising managers are unable to relate.

APPENDIX 6B

USING THE QUESTIONNAIRE IN STRATEGY DEVELOPMENT WORKSHOPS

The questionnaire has been effectively employed in strategy development workshops with a number of SBUs. These workshops typically involved the TMT from an SBU and key functional managers reporting to the TMT. All the workshops were held at a location away from the SBU. The aims of the workshop were to assist the team in developing a strategy for their business (an approach not dissimilar to that described by Eden and Huxham 1988). The author (and a colleague) acted as facilitators in this process, providing frameworks and concepts to aid analysis and discussion of the strategic situation facing the SBU. Typically the workshops followed this sequence of activities:

* a structured analysis of the SBUs competitive environment
* a discussion of competitive strategy
* the formulation of a "mission statement"
* identifying the culture of the SBU, and blockages to change
* translating the mission into practical tasks
* establishing task ownership

This sequence was adopted for two reasons. Firstly, it has a "logical" flow: analysis of the environment precedes the formulation of competitive strategy, which is then translated into implementation activities. Secondly, the sequence assists in the development of the strategy process itself. By starting the process with (relatively) safe and uncontroversial analysis of

the environment, the team gain confidence in themselves, in the facilitators and in the process in which they are engaged. Nevertheless, the early stages of environmental analysis often tended to reveal to the team a worrying lack of knowledge about their industry, and, particularly, their customers and their customers' needs.

By the time issues of competitive strategy in general are raised the team are, usually, fully involved in the event, and comfortable with the process. The role of the perceptions of strategic priorities research has primarily been to reflect back to the team a view of the realised strategy of their SBU, and to do it in such a way that it acts as a strong stimulus to debate. As Walsh et al (1988) argue:

"An awareness of the different assumptions and beliefs held by all the members of the decision making group is thought to contribute to more effective decision making." (Walsh, Henderson, and Deighton 1988:198).

The typical approach would involve managers from the Top Management Team, and representatives from functions below the TMT completing the questionnaire prior to the strategy development workshop. The questionnaires would then be processed, and the results would be introduced at the workshop following the discussion of competitive strategy.

The purpose was not just to supply information, but to provide feedback in such a way that it would assist in generating meaningful debate about SBU strategy. In this way the results of the survey often played a part in challenging complacency, and, most importantly, in surfacing the "taken for granted" assumptions shared by the TMT.

To achieve these process aims the presentation of the results for the SBU was preceded by a discussion of competitive strategy using the framework introduced in Chapter 5. The TMT

members were involved in identifying viable strategies, and in pointing out problems associated with different competitive strategies.

Then, the TMT were exposed to several examples of the two-dimensional plots ("Differentiation" and "Efficiency") from other SBUs. The TMT members were invited to comment on, and interpret these selected examples. The purpose here was to prepare the TMT for the presentation of their plot. Having reached a point where the TMT were comfortable with the interpretation of these plots, their plot was presented to them.

Raimond and Eden (1990) note from their work with management teams that:

"Frequently ... planning proved to be a strongly emotional event...We came to view the emotional responses of participants to the planning process as useful indicators of whether the plans were likely to be successfully implemented....If the players are politely reserved and non-committal there is more work to be done" (Raimond and Eden 1990:102-3)

The process of leading the management team through the plots of other SBUs was designed to help to provoke an emotional reaction to the presentation of their own plot. In this way the realised strategy would be reflected back to the team in a way that was more likely to trigger emotive as well as connative responses. This device was particularly valuable in disturbing a complacent group, especially if their plot revealed a marked lack of consensus. (see for example, Case A).

If the plot revealed a degree of consensus around a particular orientation ("Differentiation", "Hybrid", "Efficiency", or "Impoverished") the implications of the strategy could be discussed. This debate tended to involve the comparison of the realised strategy with the group's emerging ideas about appropriate competitive strategies (resulting from the earlier

discussions).

If the plot revealed a lack of consensus the impact on some members of the group appeared to be quite significant. It would be used by some group members to support their view that there was a lack of strategic direction, and, faced with this "evidence" the more complacent members could be seen to be gradually changing their attitudes. By itself, however, the impact of the plot was probably not a critical trigger in causing some group members to begin to change attitudes. But, the cumulative effect of this and other process interventions throughout the workshop resulted in significant changes in the attitudes of some group members to the need to change the strategic direction of their SBU.

The plots, therefore, assisted in surfacing the realised strategy of the SBU in a way that stimulated the strategy debate within the team.

The Strategy Fingerprints helped to focus attention on particular statements, and on statements that were perceived by managers to relate to each other. A lack of consensus revealed by the SBU plot may conceal a high degree of agreement about particular statements, which the fingerprint could reveal.

To help further in interpreting the fingerprints managers were exposed to other examples, and their significance was discussed, prior to the presentation of their SBU's fingerprint.

The strategy fingerprints provided more detail about the realised strategy of the SBU than the two-dimensional plots. They revealed which of the four strategic thrusts the SBU was actively pursuing. Moreover, the realised strategy inferred from the fingerprint could be interpreted within the framework of the "Managerial" theory of competitive strategy.

Not all the SBUs in the SBU database were involved in strategy

workshops. In these non-workshop situations the data was generally presented back to the TMT in the form of a written report. As the techniques of analysis and interpretation were developed, and as the database was being built up , the content of these reports improved. Early forms contained just the two-dimensional plot, the consensus measure (for the whole SBU sample) and some limited interpretation. Later reports were able to incorporate the fingerprint, other consensus measures (eg cross TMT-FMT consensus), and, more usefully, interpretation informed by the developing database.

Through the workshop experiences, where the results could be discussed with the management team, the interpretation of the results became more sophisticated. As a result, the written reports, and the feedback of the results in the workshops, became more assertive. In the workshop context, the ability to "read" into the results more penetrating insights into the reality of the SBU's situation increased the impact of the sessions.

CHAPTER SEVEN

CONCLUDING COMMENTS AND OPPORTUNITIES FOR FUTURE RESEARCH

7.1 ACCESSING REALISED STRATEGY

One of the main aims of the research was to establish a reliable method for accessing realised strategy. In Chapter 1 the distinctions between intended, emergent and realised strategy were explored, and a model of the processes linking managerial perceptions of strategic priorities and realised strategy was established (Figure 7.1). It was argued that realised strategy will be influenced by both intended and emergent processes. Arguments were advanced that would lead us to be wary of inferring realised strategy solely from the inspection of planning documents. Moreover, in many SBUs such explicit statements of intended strategy may not be available. It was suggested that the development of a reliable and easily administered instrument for surfacing realised strategy would enable the exploration of a number of important aspects of the strategic management of SBUs.

The questionnaire developed to investigate managers' perceptions of strategic priorities can enable us to make inferences about the realised strategy of an SBU. The approach taken in the study produced:

* SBUs where a high degree of consensus existed about particular strategic priorities

* SBUs which could be categorised into one of five strategy

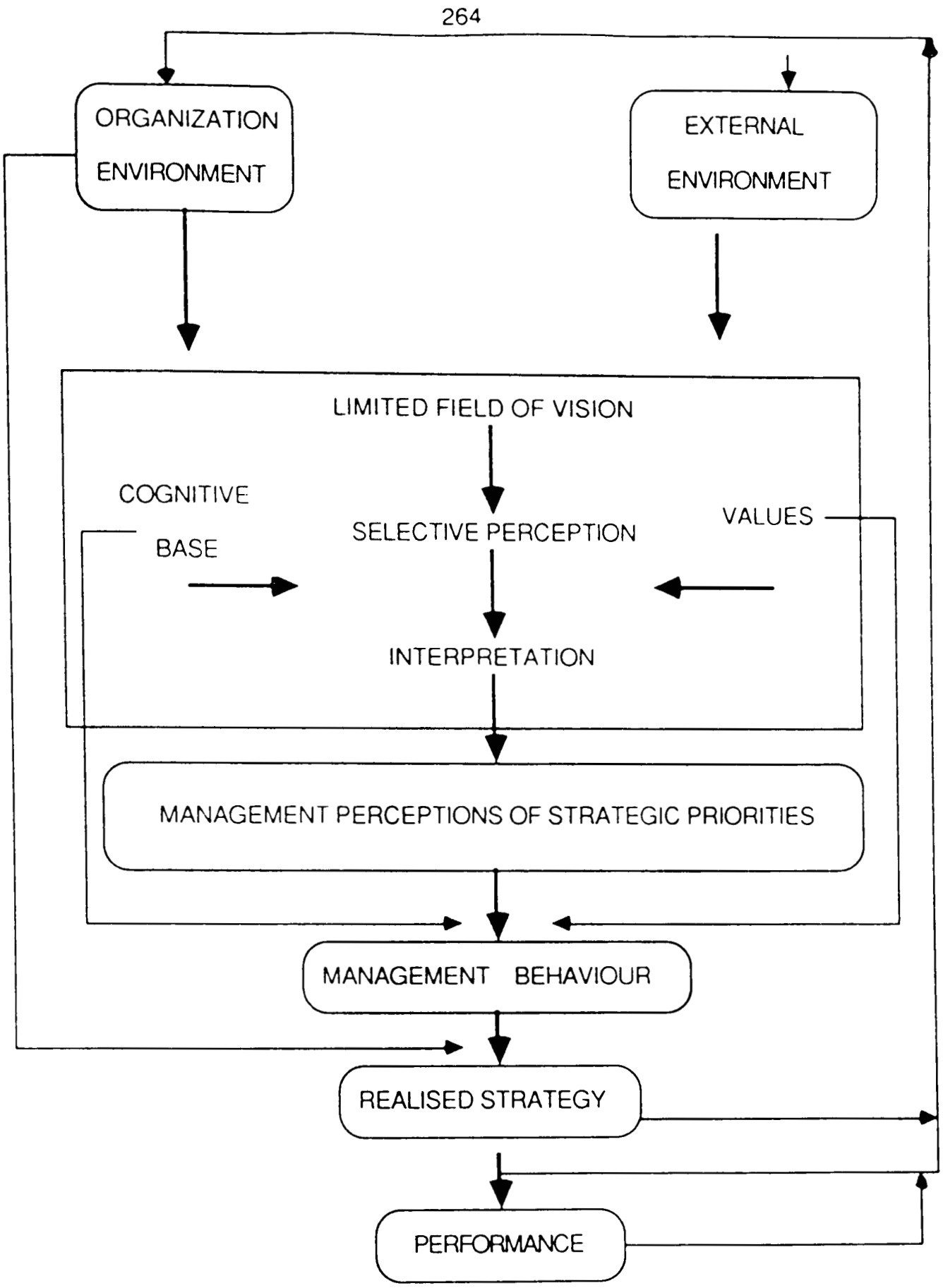


FIGURE 7.1 PERCEPTIONS OF STRATEGIC PRIORITIES AND REALISED STRATEGY

types ("Differentiation", "Cost leadership/Cost control", "Hybrid", "Impoverished", "Unclassified").

Therefore the approach enabled us to discriminate between SBUs on the basis of inferred realised strategy. The realised strategy categories could then be used to test theory-based hypotheses about SBU level strategies.

The model (Figure 7.1) suggests that the perceptions that managers have of the strategic priorities of their SBU will influence their behaviour, and that the behaviour of managers then influences the realised strategy of the SBU. These linkages were moderated by managerial values and beliefs, and organizational circumstances. These linkages have not been investigated in this research. The inferred connection between management perceptions of strategic priorities and management behaviour is clearly a critical link in this model. This linkage could be investigated empirically in various ways:

* a manager's perceptions of strategic priorities could be compared with his or her subordinates' perceptions of the manager's (rather than the SBU's) priorities. If there was congruence between the manager's perceptions and the subordinates perceptions of the manager's "personal" priorities, this would indicate that the manager's behaviour is in line with his perceptions of strategic priorities.

* the behaviour of the manager could be recorded (through observation, diary keeping) and compared to his perceptions of SBU priorities (Mintzberg 1973). The time and energy committed to certain tasks and projects could be related to strategic level priorities.

These further studies would, therefore add to our understanding of the processes that influence the realised strategy of an SBU.

7.2 STRATEGIC PRIORITIES

The research is based upon a questionnaire that includes statements about SBU strategic priorities (Wooldridge and Floyd 1989). Strategic priorities have been advanced here as an intermediate level construct suitable for investigating realised strategy. It was argued in Chapters 1 and 3 that statements about, for example, cost control and new product/service development are appropriate for developing insights into SBU level competitive strategy. And that such statements would not be so specific that managers would attribute them to functional level priorities, but, at the same time, the statements would not be so generalised that managers would be unable to relate to them.

There is strong evidence from the large number of managers that have completed the questionnaire (to date, over 1450), that the statements included in the questionnaire fulfill these requirements. Managers have not expressed difficulties in applying the statements to their SBU's situation, and, with the exception of two statements (18 and 19), the statements have generated variance (which suggests that they are not universally perceived to be relevant, or irrelevant to SBU strategy).

However, the statements were derived from Porter's generic strategy concepts, and, as argued in Chapter 5, this framework may be an overly restrictive conception of competitive strategy. An opportunity then presents itself to research other intermediate level constructs that are not necessarily constrained by the Porter paradigm.

For example, statements derived from the "managerial theory" developed at the end of Chapter 5 could be tested (this is already being undertaken with a revised questionnaire). Alternatively, intermediate level statements could be generated that relate to the typical content of Mission Statements (David 1989):

* Customer definition

* Technology

* Objectives

* Strengths

* Social Responsibilities

* Key Values and Philosophy

A research instrument could be developed that would be tailored to reflect the Mission Statement of a particular corporation, and consensus about these dimensions of the Mission could be measured. By repeating the measurement at intervals the management team would have a measure of the effectiveness of their efforts to implant the Mission Statement.

But, more importantly, it is necessary to derive statements directly from the perceptions and cognitions of practicing managers (Stubbart 1989:33). This issue is explored further in the section on Consensus and Realised Strategy below.

7.3 CONSENSUS

Consensus is a major theme of this research. Consensus is important in this study because it helps us address two important questions:

* can we use consensus about strategic priorities to make inferences about realised strategy?

* does consensus about strategic priorities make a

difference to performance?

Consensus about particular strategic priorities forms the basis for the classification of SBUs into the five realised strategy categories ("differentiation", "cost control/cost leadership", "hybrid", "impoverished", "unclassified"; Chapter 3). If the managers in an SBU had a positive mean factor score (the factors being "differentiation" and "cost control/cost leadership") that was significant then their SBU was classified in the appropriate category. Here the consensus measure is based on the standard deviation about a mean factor score.

To test the consensus/performance hypothesis a different consensus measure was developed. This measure was derived from the correlation matrix of the managers in the SBU sample. As such, the measure is standardised, and can therefore be used to compare consensus across studies that employ different rating scales and numbers of statements.

The consensus/performance relationships, and the categorization of SBUs into the different categories of realised strategy used all the managers sampled from each SBU. Thus the consensus measure included the TMT (Top Management Team) and FMT (Functional Management Team) groups together. As indicated in Chapter 3, because this study samples levels below the TMT, there is an opportunity to test out other forms of within-SBU consensus (Bowman and Miller 1990):

* consensus within the TMT

* consensus within the FMT

* consensus across TMT/FMT (see Figure 7.2)

There are relevant issues in strategic management associated with each of these consensus measures. For example, TMT consensus would measure the extent to which the senior

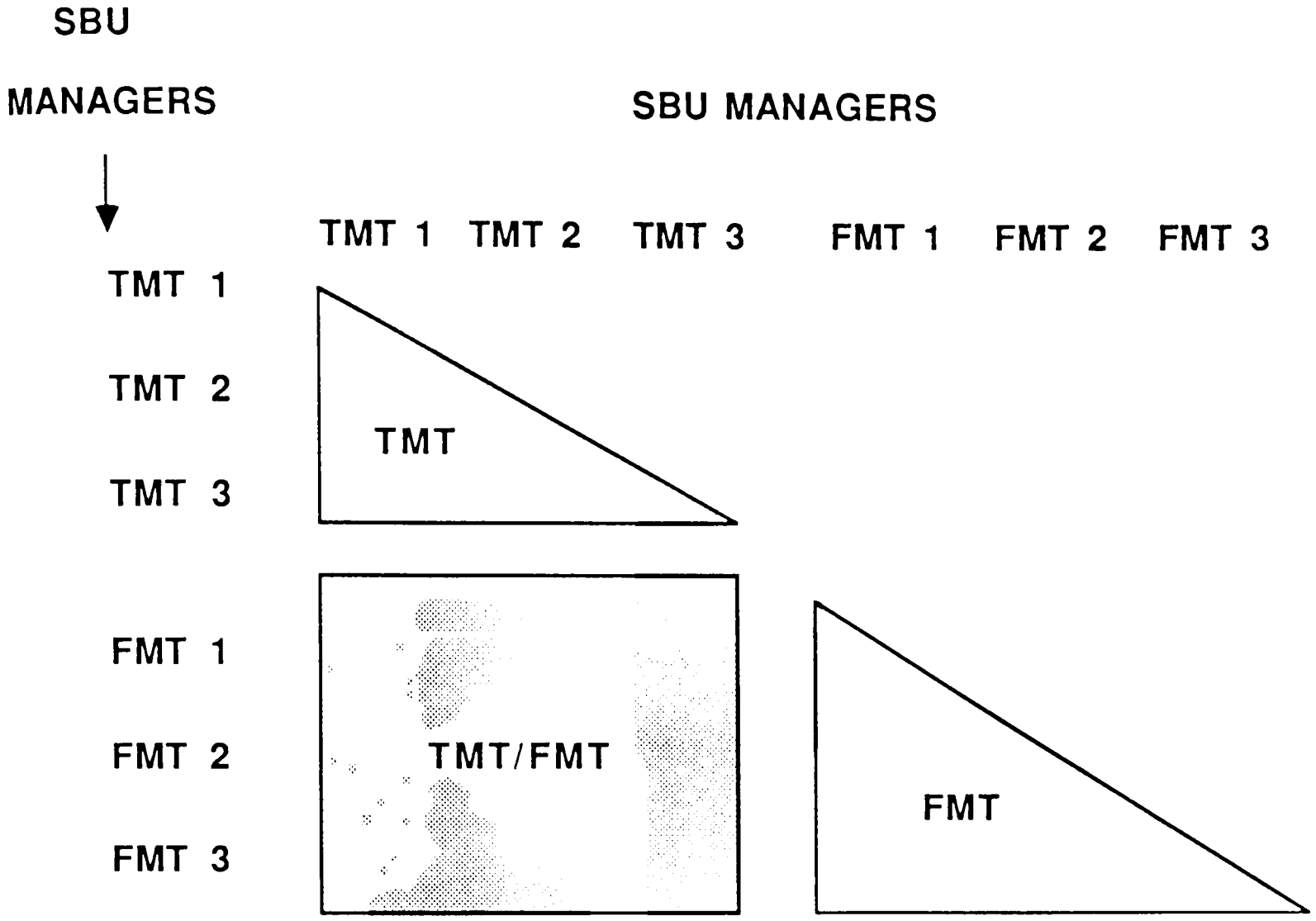


FIGURE 7.2 ADDITIONAL FORMS OF CONSENSUS

management shared the same perceptions of strategic priorities. An accepted norm in the prescriptive literature (cited in Chapter 1) is that the TMT should unite behind an explicit, viable strategy. TMT measures of consensus about the relevant dimensions of such a strategy (which may well include statements of objectives, core values, target markets) would be crucial to successful implementation.

Where firms face complex environments FMT consensus about SBU strategic priorities may not be appropriate (Lawrence and Lorsch 1967). It may be the case that successful firms in these environments combine TMT consensus about strategic priorities with FMT dissensus, allowing each differentiated function to pursue its own goals within super-functional constraints.

TMT/FMT consensus tests out agreement across levels. Using the correlation matrix derived from comparing the ratings of all pairs of managers, TMT/FMT consensus would be the mean of the correlation coefficients in the shaded portion of Figure 7.2. This measure of consensus excludes both within-TMT, and within-FMT group consensus. Thus it measures the extent of agreement between all TMT/FMT pairs. This form of consensus focusses on the differences in perceptions between these two levels. Therefore, it would be particularly useful in exploring, for example, the extent to which TMT efforts to "get their message across" to lower level managers have been successful. The general measure of consensus used in this study includes these TMT/FMT pairings, but their significance is diluted by the inclusion of the within-group correlations. Therefore, isolating this fourth consensus measure should prove to be helpful.

7.4 CONSENSUS AND REALISED STRATEGY

The theoretical justification for using the significance tested mean factor scores to classify SBUs was advanced in Chapters 1

and 3. It was argued that managers perceptions would influence their actions, and that these actions, in turn, would influence realised strategy. In addition, it was suggested in Chapter 1 that managers were reliable and knowledgeable observers of the organizational scene, and hence their ratings would reflect reasonable accurately the priorities being pursued in the SBU. Thus the inferring of SBU realised strategy from the questionnaire responses rested on the assumption of the manager as an actor In the organization, directly influencing realised strategy, and the assumption that a manager is a reliable observer of and commentator on the organization's priorities.

If consensus around a particular set of strategic priorities is revealed then it would be reasonable to argue that these statements describe the realised strategy of the SBU. Conversely, if the research reveals no consensus, following the same line of reasoning, we should conclude that the SBU has no coherent or consistent realised strategy (that is, within the constraints of the dimensions used to construct the questionnaire statements). And this, indeed, was the approach used in this study.

The situation where consensus exists in an SBU causes few problems with this concept of the manager as actor and observer. A manager perceives certain priorities are extant in the organization, and he behaves accordingly. However, where a lack of consensus exists how can we make sense of the outcome in terms of managerial perceptions and managerial behaviour? A lack of consensus is indicating that one manager perceives, say, cost control priorities as predominating, whereas another manager sees differentiation priorities predominating. Can both managers be "right"?

In the manager's role as actor this would suggest that, in the domain of the "cost control" manager he is pursuing cost cutting activities; whereas in the domain of the "differentiator" other priorities are being pursued. This may or may not lead to good

SBU performance. Arguments advanced in favour of differentiated structures (Ashby 1956; Lawrence and Lorsch 1967) may associate such differences in goal orientations as an appropriate response to environmental complexity. However, in constructing the questionnaire the intention was to avoid including strategic priorities that are clearly orientated to particular functions (although the analysis presented in Chapter 6 indicates that managers nevertheless perceive these priorities differently according to their functional background).

The role of the manager as observer of the organizational scene causes particular problems where the questionnaire responses reveal a lack of consensus. This may be explained by the parochial and narrowed perspectives generated within highly functional structures (as explored in Chapter 6). In this case the responses reflect the managers functionally influenced world view. They are "true" perceptions of his reality. However, a lack of consensus may indicate a "reality" that is not reflected in the responses of either of the managers. In this case, drawing inferences about realised strategy from these responses could be a problem.

Clearly, research is needed into situations where a lack of consensus exists. The advantage of the methodology to research realised strategy developed in this study is that the basic instrument is parsimonious, and easy to administer to large numbers of managers. The disadvantages of the approach stem precisely from these advantages:

* because the questionnaire is short it can only address a very limited number of dimensions of competitive strategy

* the brief, generalized statements may be being interpreted differently by different managers

* there is no proven connection between the manager's questionnaire responses and his or her "true" perceptions of

strategic priorities

* consensus may well exist in the SBU about strategic priorities not covered by the questionnaire

In order to address some of these methodological problems alternative approaches could be explored. Managerial perceptions could be accessed through the use of repertory grid techniques (Kelly 1955; Eden, Jones and Sims 1979; Reger 1990). Alternatively (or additionally) structured interviews could be held with individual managers to derive competitive strategy constructs without imposing a predetermined standard set of dimensions. These approaches could be used in combination with the questionnaire method employed here. For example, the interviews could be used to construct a set of statements that were more likely to be perceived to be relevant by other managers from the SBU. In this way richer studies of fewer SBUs would be possible, although the opportunities for deriving generalizable results would be reduced.

7.5 CONSENSUS AND PERFORMANCE

The results offered qualified support for the consensus-performance relationship (Hypothesis 8). The results do not provide overwhelming evidence for the benefits of consensus. Consensus is related to performance, but only if there is consensus about a positive strategy (either cost control, differentiation or a combination of both). But even with these qualifications, the link between consensus and performance is not strong.

There are arguments that can be advanced in support of both a positive and a negative relationship between consensus and performance (Hrebiniak and Snow 1982). In advancing arguments in support of a negative relationship between consensus and

performance writers have adopted a contingency approach, arguing that where an SBU faces a highly complex environment subunit differences in goal orientation are functional (Hrebiniak and Snow 1982:1141). Weick (1977) argues that organizational diversity and variety enhances the ability of the organization to adapt to changing environments, and Murray (1989) offers empirical evidence to support the links between top team heterogeneity and performance in changing environments.

Nonaka (1988), echoing Weick (1977), suggests that:

> "It is more desirable for an organization to have several coexisting countercultures than to be dominated by a single value." (1988:63)

The arguments for and against the performance benefits of consensus suggest that a good deal of further work is required. In particular, we need to identify the organizational and environmental circumstances in which consensus about strategic priorities is positively or negatively related to performance. In the present study there was no attempt to control for environment, or the age or size of the SBU, or the nature of the SBU's task complexity. All these contingent conditions (and more) could conceivably influence the consensus-performance link. It should be possible to construct a research design that allows the influence of the more important contingent variables to be incorporated.

7.6 SUPRA-INDIVIDUAL KNOWLEDGE STRUCTURES AND CONSENSUS

Daft and Weick (1984) argue for the existence of organizational interpretations:

> "..the organizational interpretation process is something

more than what occurs by individuals. Organizations have cognitive systems and memories. Individuals come and go, but organizations preserve knowledge, behaviors, mental maps, norms, and values over time. The distinctive feature of organization level information activity is sharing. A piece of data, a perception, a cognitive map is shared among managers who constitute the interpretation system....Reaching convergence among members characterizes the act of organizing and enables the organization to interpret as a system." (Daft and Weick 1984:285)

Walsh (1989) discusses this concept supra-individual knowledge structures. Collective knowledge structures have been variously termed a "collective cognitive map", a "dominant logic", or a "negotiated belief structure" (Walsh and Fahey 1986). These knowledge structures are seen as the aggregation of individual knowledge structures. Some have taken this line of reasoning further, arguing for the existence of an "organization mind" (Sandelands and Stablein 1987). Attempts have been made to aggregate individual knowledge structures to reveal a collective cognitive map (Walsh 1989:15).

However, Walsh offers a less controversial position:

"While there is some controversy as to whether or not a system-level, supra-individual belief structure exists, there is general agreement that group membership or organizational membership affects individual cognition." (1989:17)

The model outlined in Chapter 1 (Figure 7.1) acknowledges that a manager's beliefs and values will be influenced by, inter alia, his or her organizational experiences. It follows that, if managers share very similar experiences they are likely to emerge with similar cognitive frameworks. These similar cognitive frameworks may cause managers to filter information in similar ways, and they may lead them to arrive at similar decisions. For these effects to occur it is not necessary to hypothesise the

existence of a system level "organization mind". The processes that would lead to a group of managers having similar cognitive frameworks (common past experiences, group interactions, indoctrination processes etc) operate at the level of the individual, affecting the perceptual processes of an individual.

As pointed out earlier, an important theme of my research has been the concept of consensus: shared perceptions of, in this case, SBU level strategic priorities. It seems reasonable to offer this methodological approach to the study of cognitive frameworks. By measuring the extent of agreement within a group of managers about, for example, assumptions about competitors, the degree to which managers share the same perceptions can be measured. Hence, there is no requirement to hypothesise the existence of a collective mind, a supra-individual, system level mental construct, and there is no need to try to synthesise a group cognitive map from the responses of individuals. The analysis can be done by comparing pairs of individuals within the group or organization. If there is consensus, then this indicates that managers share similar perceptions of the competition; a lack of consensus indicates that they do not.

7.7 PORTER'S GENERIC STRATEGIES AND MANAGERS' GENERIC STRATEGIES

The hypotheses established to explore realised strategy and performance assumed that managers perceive competitive strategy in line with Porter's generic strategies. A number of Hypotheses linked to Porter's approach to competitive strategy were established (Chapter 2), and tested (Chapter 4). The results support the view that where SBUs pursue a positive strategy of "cost leadership/cost control", "differentiation" or a strategy which combines these two orientations, they achieve superior performance (Hypotheses H3, H4, H6). Moreover, firms that

pursue neither of the generic strategies perform poorly (H5).

The review of the literature concerning the generic strategies presented in Chapter 5 highlighted a number of problems with Porter's approach, and problems with attempts to empirically explore the concepts. Some of the more significant issues are as follows:

* There is confusion about the strategy of cost leadership. It is not clear whether or not the strategy is associated with competing on price, or with "commodity" like industries. It is evident that some researchers are using the term very loosely to describe a general "cost control" orientation.

* If cost leadership SBUs compete on price then it is not clear that their lowest cost position would yield above average profits; nor is it clear what the appropriate industry definition should be for comparing performance (or relative costs).

* There would appear to be confusion about whether the generic strategies are really about selecting WHERE to compete (ie segmentation, or domain selection decisions) rather than deciding HOW to compete in a particular domain.

* It is not clear whether Differentiation requires premium pricing in order to achieve above average profitability (and as with the Cost Leadership strategy, what the relevant comparitor firms should therefore be). If Differentiation is a market share increasing strategy, it is not therefore certain that the strategy would yield above average profitability.

Central to these issues surrounding the generic strategies is the definition of the industry. Three alternative definitions may be proposed of a given industry, reflecting different interest groups:

* the researcher's definition (eg. "the car industry": defined very broadly to reflect the researchers interests in identifying the macroeconomic significance of the industry in different countries)

* the manager's definition (eg. "quality medium sized saloons")

* the customer's definition (eg. "potential suppliers of a cheap second car" which may include both new and used cars)

Arguably, the most relevant definition for understanding management decision making behaviour would be the manager's definition. Insofaras competitor considerations influence the decision making processes of managers, in trying to understand these decisions it is only relevant to include in the analysis those firms that the managers perceive their firm to be in competition with.

Prescriptively, the most pertinent definition of a firm's competitors around which to construct a competitive strategy would be the target customer's definition. There would appear to be here, therefore, a fruitful area for research. For example, the following questions could be addressed:

* Do managers in the same SBU define the competition in the same way? If consensus exists how does this affect strategic decision making? If there is little agreement does this affect performance?

* Do customers define a firm's competitors in the same way as the management? If they do not, what are the implications for the competitive strategy of the SBU?

Chapter 5 explored the "manager database" in order to test out whether practising managers do, in fact, conceive of competitive

strategy in terms of Porter's generic strategies.The results of this part of the theses would suggest that managers perceive strategy differently from the two generic strategy options proposed by Porter. Specifically, the manager database revealed the presence of four competitive thrusts: two that could be associated with competing for market share (offering superior products/services; and competing on price); one concerned with cost control; and a fourth concerned with new product development. The results are in line with two prior investigations into the generic strategies (Miller and Friesen 1986a; Dess and Davis 1984).

An attempt was made to construct a "managerial" theory of competitive strategy around these empirical results. The "managerial theory" of competitive strategy developed in Chapter 5 appears to be a coherent model for exploring issues in competitive strategy. Testable propositions can be derived from it, and managers have benefitted from its use as a teaching vehicle.

The results of tests using the five factor "solution" revealed that the most successful strategic thrust was to offer "superior products/services". The "managerial theory" developed to explain the five factor solution indicated that, if an SBU successfully pursued this thrust the increases in market share that should result could be translated into a low cost position (by exploiting cost advantages accruing from scale and experience curve effects). Although there are difficulties in proactively managing a "cost leadership" strategy (not the least of which would be the problems in acquiring cost data on competitors), it is nevertheless quite plausible for an SBU to pursue a market share gaining strategy (through offering higher perceived use value to customers) with the attainment of a low cost position.

In the discussion of the managerial theory the tendency for managers to pursue inward-looking cost orientated strategies was raised. Although there is evidence from the SBU database

that cost control is a popular strategic thrust, the explanations for this outcome have not been investigated in this study. The arguments advanced in Chapter 5 were that managers are instinctively more comfortable pursuing cost control priorities:

* there are many generally known and available prescriptions for cost control (systems; rules of thumb)

* managers may know relatively little about customer needs, competitors, customer perceptions of their's and competitor's offerings, changing customer needs, upon which they could proactively manage a strategy of offering higher perceived use value than the competition.

* due to the lack of management development activity in many UK firms, managers are more likely to search within their own experiences for strategic actions. These experiences may well reflect the limited strategic perceptions of their past superiors.

* if the managers share a belief that they do understand what their customers value, and they are providing it, they are not likely to search to improve the products or services they offer, particularly in times of deteriorating performance.

* short term pressures to produce bottom line results would encourage managers to cut costs as a typical reaction to declining sales.

These explanations of a tendency for cost control priorities to predominate are no more than assertions. Research into these possible explanations should provide some valuable insights into managerial strategic thinking.

A number of methodological issues are raised by the approach taken in the study:

* in the absence of the constrained options presented to the managers, would they conceive of a very different set of strategic priorities? These priorities may combine to reveal strategic thrusts that differ from both Porter and from the "managerial theory" derived in Chapter 5.

* would these priorities be very specific to SBUs, or would they tend to be similar across industries, or across all SBUs?

* how volatile are the priorities perceived by managers? Do they alter in line with SBU performance? industry performance? or the performance of the economy?

The data collected from managers to construct the SBU database includes statements about organizational change (changes in structures, processes, operations and strategy). Combining this change related data with the realised competitive strategy data provides us with an opportunity to explore whether these variables commonly cluster into a limited number of configurations. Clusters of SBUs that combine particular realised competitive strategies with particular dimensions of organizational change could be identified, and the performance of these clusters could be compared. In this way high and low performing configurations or gestalts could be identified (Miles and Snow 1978; Miller and Friesen 1986).

7.8 FUNCTIONAL, ORGANIZATIONAL AND INDUSTRY INFLUENCES ON PERCEPTIONS OF STRATEGIC PRIORITIES

Chapter 6 explored three sources of influence that may affect a manager's perceptions of the strategic priorities in the SBU. The model depicted in Figure 7.1 identifies internal and external (to the SBU) sources of stimuli. These stimuli are filtered and interpreted by the manager with reference to his or her beliefs

("cognitive base") and values. It was argued that, in addition to organizational influences (which may include deliberate attempts by the top management to implant a particular set of priorities), the manager's functional experience, and the industry context in which he is operating would influence his perceptions of priorities.

The manager database was used to search for evidence of functional, or industry influences on perceptions of strategic priorities. The investigations revealed support for both forms of influence.

7.8.1 THE INFLUENCE OF FUNCTIONAL EXPERIENCE

It appears that, in support of Dearborn and Simon's pioneering study (1959), there is evidence that a manager's functional background influences his or her perceptions of business level strategic priorities. It is not clear whether or not this affects SBU performance. Further work needs to be done to address the following questions:

* In what SBU situations does functional background emerge as a strong influence? Where is it a weak influence? Why?

* In what circumstances does functional bias help or hinder SBU performance?

* Is functional background generally the strongest influence on managers' perceptions of SBU level priorities? Does it emerge as the strongest influence where there are unsuccessful (or no) attempts to provide strategic direction?

* Does the strength of functional influence vary across industries? Is the age of the SBU relevant?

The organizational, and personal processes and situations that result in functional influences predominating could also be further explored:

* Does the strength of functional influence vary directly with the length of a manager's experience in the function?

* Are their differences in the strength of functional influence according to hierarchical level? Do some functions exert a more pervasive influence on perceptions of SBU strategy than others (eg. finance/accounting)?

* Can functional influence be moderated by moving managers across functions, or by management development activities?

More generally, the appropriateness of functional structures could be investigated. The strategy workshops referred to in Chapter 6 (and Appendix 6A) have posed some interesting issues in this regard. It seems that when the management team derive a mission statement that encapsulates a well thought through competitive strategy, the actions required to implement the strategy challenge the existing functional organization. In particular, it appears that most of the actions given high priority cannot be neatly allocated to one of the existing functions. This would suggest that in order to be truly competitive the SBU must find ways of working across and around the traditional functional organization. Although Porter's Value Chain (Porter 1985) has not been used in these workshops, his concept of linkages would seem to be making the same point.

7.8.2 THE INFLUENCE OF INDUSTRY CONTEXT

Chapter 6 included an investigation of industry influences on managers' perceptions of strategic priorities. The group of SBUs selected for this analysis belonged to the Regional Newspapers

industry. However, they were also part of a newspaper corporation, so some caution needed to be exercised in interpreting evidence in support of industry influences. Further studies could done, using the same approach as applied here, but basing the analysis on a sample of independent, direct competitors.

A number of issues emerge from this investigation that might prove worthy of further research:

* To what extent are the perceptions of managers about SBU-level strategy influenced by:

functional background

organizational context

industry context

national/cultural contexts (Calori, Johnson and Sarnin 1991)

It may be possible to establish statistically the relative strength of these (and other) influences on the perceptions of a group of managers. Other issues worthy of further consideration would include the following:

* If there is evidence of a strong industry "recipe" is competitive advantage to be gained by working the "recipe" better than the competition, or by abandoning the recipe?

* What industry situations lead to strong recipes? Is industry life-cycle an important variable?

* What processes lead to the emergence of strong industry influences?

7.9 SURFACING REALISED STRATEGY IN STRATEGY DEBATES

Chapter 6 reported a number of cases where the questionnaire analysis contributed to strategy debates among the Top Management Teams of SBUs. Examples were selected that illustrated the range of issues addressed in the discussions, and the different types of contribution that the analysis made to the debates. In retrospect, perhaps the most significant contribution of the analysis was the presentation of something tangible and, most importantly, visual into discussions that are usually (perhaps necessarily) somewhat abstract, generalized and impressionistic. The introduction of an easily interpreted plot, that purported to reflect the realised strategy of the SBU, often provided a focus for the discussions.

All of the workshops where the analysis was presented were judged by the participants at the time, and on reflection to be most valuable events. Our impressions of the contribution of the analysis to the debates are clearly subjective judgements. It would be useful to explore the processes of these workshop to try to establish which of the activities, conceptual frameworks, and facilitator inputs were most influential in bringing about, inter alia, changes in perceptions, realisation about the need for change, and positive commitments to action. As Raimond and Eden (1990) point out, the emotional climate of these events seems to be a proxy measure of their potential success. In which case, how can this process dimension be best managed by the facilitator?

More specifically, the presentation of the the analysis of managers' perceptions could be improved. The "strategy fingerprint" (Chapter 6) provides a concise picture of the SBU's realised strategy, and with more SBU data being added to the database it is possible to identify patterns to these fingerprints.

It may eventually be possible to interpret a fingerprint with some accuracy, drawing upon past similar examples to make generalized comments about the SBU. This approach would be analogous to the interpretation of personality profiles for individuals.

If this can be achieved, we would have a powerful diagnostic instrument, which can be easily administered, but one which can provide valuable insights into the SBU's situation.

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APPENDIX A

THE "PERCEPTIONS OF STRATEGIC PRIORITIES" QUESTIONNAIRE

PERCEPTIONS OF STRATEGY

Company:

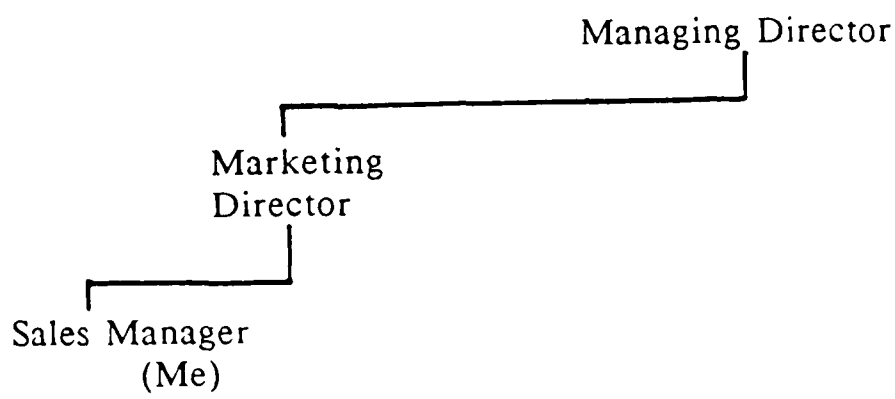
Division/Business Unit:
(if appropriate)

Name:

Function/Department:

Position in Organisation:

Indicate your position in relation to the Managing Director of firm - e.g.



PERCEPTIONS OF STRATEGY

INTRODUCTION

This brief questionnaire is designed to help discover your perceptions of your firm's strategy. In answering the questionnaire assume each statement applies to the most logical 'unit' in the firm. For example, in a diversified organisation, these statements would apply to a single business unit or division. If the statement does not apply at all to your firm/division/unit then circle (1). If the statement accurately describes the situation in the firm, circle (5). The numbers (2) to (4) enable you to indicate intermediate positions in between these two extremes.

Please note that we are interested in your firm's CURRENT STRATEGY; the statements refer to what your firm is doing NOW, not what you think it might be doing some time in the future.

Thank you for your help.

Cliff Bowman

		This statement does not apply to our firm				This statement accurately describes the situation in our firm
1.	We place considerable emphasis on the control of operating costs	1	2	3	4	5
2.	The strategic direction we are now pursuing represents a significant change from that pursued in the past	1	2	3	4	5
3.	We emphasise our distinctive products or image in our marketing communications	1	2	3	4	5
4.	Our organisation, and the way things get done within it, have changed little in recent times	1	2	3	4	5
5.	There is constant pressure here to cut overhead costs	1	2	3	4	5
6.	We make extensive efforts to secure the lowest cost sources of supply	1	2	3	4	5
7.	We regularly develop new products/ services, or significantly change the line of products/services we offer	1	2	3	4	5
8.	We try hard to maintain the maximum feasible utilisation of our capacity/ resources	1	2	3	4	5
9.	We try to offer unique products/ services enabling us to charge premium prices	1	2	3	4	5
10.	We give new product/service development top priority	1	2	3	4	5
11.	We emphasise competitive prices in our marketing communications	1	2	3	4	5
12.	Our line of products/services seldom change in a substantive manner	1	2	3	4	5
13.	We carefully monitor operations to help us keep costs under control	1	2	3	4	5
14.	Currently, we are trying to operate this business in significantly different ways to those we have in the past	1	2	3	4	5

		This statement does not apply to our firm				This statement accurately describes the situation in our firm
15.	As our customers are very price sensitive, we devote considerable time and effort into improving efficiency	1	2	3	4	5
16.	The organisational structure and/or processes we are now using represent a noticeable change from our recent past	1	2	3	4	5
17.	Information about sales performance is considered to be more important than cost control information	1	2	3	4	5
18.	We aim to offer superior products/ services to those of our competitors	1	2	3	4	5
19.	We aim to be the lowest cost producer in our industry	1	2	3	4	5
20.	We try to operate this business in much the same way today as we have in the past	1	2	3	4	5
21.	Because we offer very similar products/ services to the competition, we try to maintain competitive prices	1	2	3	4	5